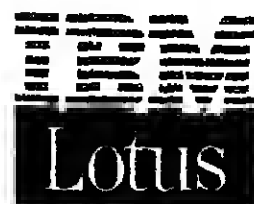
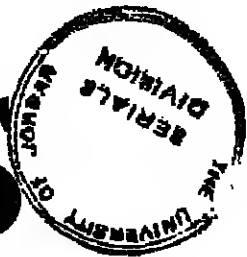


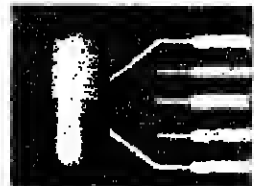
1995/06/13

MONDAY JUNE 12 1995

# FINANCIAL TIMES



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Changing the software landscape  
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**Cutting edge**  
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**Lisbon politics**  
Corruption takes centre stage  
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**Grand strategies**  
Redrawing the map of Europe  
Europe, Page 16

World Business Newspaper

TUESDAY JUNE 13 1995

## US-Japan talks over car dispute end in deadlock

A day of talks in Geneva between the US and Japan on their car dispute ended in deadlock, leaving the row to US and Japanese leaders at the Group of Seven summit in Halifax, Nova Scotia, later this week. Yesterday's talks focused on Japan's complaint that US trade sanctions announced last month on nearly \$6bn of Japanese luxury car imports violate World Trade Organisation rules. Page 18

### UK may ease counter-terrorism policies

The British government held open the prospect of an overhaul of its counter-terrorism policies to take into account progress made towards peace in Northern Ireland following the paramilitary ceasefires. But Northern Ireland secretary Sir Patrick Mayhew (left) said that while incidents of terrorism had sharply declined since last summer's ceasefires, punishment beatings, other forms of intimidation and the readiness of the IRA and other groups to revert to violence called for vigilance.

**Lobby group demands Unilever ban:** The American Family Association, an influential Christian lobbying group claiming more than 1m supporters, urged a national US boycott of goods made by Anglo-Dutch consumer products group Unilever, in protest at its advertising policy. Page 18

**BBA near to victory in Holvis bid:** UK industrial company BBA Group looked set to win Switzerland's first takeover battle after International Paper failed to win an injunction blocking BBA's \$F465m (\$388.3m) takeover of Holvis, Swiss non-woven textiles and paper distribution group. Page 19

**US and N Korea agree text of reactor pact:** US and North Korean negotiators agreed the text of an accord letting South Korea provide light-water nuclear reactors to Pyongyang. The agreement has to be approved by each government. Page 8

**French prices rise only 0.2%:** French consumer prices rose 0.2 per cent in May, giving an annualised inflation rate of 1.6 per cent, the national statistics office said. Page 2

**Baltic states sign EU accord:** The three Baltic states, Estonia, Lithuania and Latvia, signed association agreements with the European Union designed eventually to make them full members. Page 2

**French socialists to act against NF:** The French Socialist party pledged to withdraw from municipal elections in which it had no chance of winning to reduce the risk of victories by the extreme right National Front party. Page 2

**Sweden moves towards EMU:** Sweden said it would meet conditions for the final stage of European Monetary Union by stabilising public debt next year and eliminating the budget deficit in 1996. Page 2

**Asia urged to reform capital markets:** Asian countries must speed reform of their domestic capital markets if they are to continue to absorb large inflows of foreign capital, a study by the World Bank shows. Page 8

**Air traffic expected to double:** A doubling of air traffic over the next 20 years threatens to overwhelm the world's airports and air traffic control systems, David Hinson, administrator of the US Federal Aviation Administration, warned. Page 7

**BAe and Saab to co-operate over fighter:** British Aerospace and Saab agreed a joint venture on the international marketing of the Swedish JAS 39 Gripen fighter aircraft. Page 7

**Crédit Lyonnais close to Allianz deal:** French bank Crédit Lyonnais appears close to an exclusive deal with German insurance group Allianz for the sale and distribution of non-life insurance products. Page 19

**Unisair Sector valued at up to FF22bn:** The French government valued the privatisation of Unisair Sector. A price range for shares in the steel giant of between FF182 and FF196 each for institutional investors values the company at between FF20bn (\$3.9bn) and FF22bn. Page 19

**Unigate to shed 1,500 jobs:** UK foods and distribution group Unigate is to cut 1,500 jobs from its dairies at a cost of \$55m (\$64m) to try to cope with rising milk supply prices and a sharp decline in doorstep milk sales. Page 19

STOCK MARKET INDICES		
New York	10,458.64	(+32.85)
Dow Jones Ind	4,458.64	(+14.24)
NASDAQ Composite	588.52	(+1.73)
Europe and Far East		
CAC40	1,907.75	(+10.73)
DAX	2,119.56	(+2.18)
FT-SE 100	3,344.8	(+6.3)
Nikkei	14,813.46	(-230.73)
US LUNCHTIME RATES		
Federal Funds	6.5%	
3-mth Treas Bill	5.75%	
Long Bond	7.11%	
Yield	6.72%	
OTHER RATES		
UK 3-mth Interbank	6.5%	(6.5%)
UK 10 yr Gilt	10.2%	(10.2%)
France 10 yr OAT	8.7%	(8.7%)
Germany 10 yr Bund	7.0%	(7.0%)
Japan 10 yr JGB	7.12%	(7.12%)
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Brent 15-day (July)	\$17.515	(17.515)
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## Salomon shelves plan to cut salaries of top earners

By Maggie Urry in New York

Salomon Brothers, the securities house, has stepped back from a controversial pay plan which would have cut salaries for its top earners by as much as two-thirds.

The news was taken on Wall Street to mean that Salomon Brothers had caved in to pressure from senior staff after a series of high-profile resignations. The decision puts the spotlight on Mr Deryck Maughan, chief executive of Salomon Brothers, who has appeared increasingly

Wall Street firm thought to have bowed to pressure after series of defections

isolated at the firm, although he apparently retains the support of Mr Warren Buffett, the largest shareholder in Salomon Brothers' parent, Salomon Inc. Mr Buffett, who chairs the Berkshire Hathaway investment group which holds a 20 per cent stake in Salomon, is on the Salomon board and is a well-known advocate of payment by results. Salomon said its board had indicated that the compensation

system for managing directors for 1996 would be changed to one based on "performance and market compensation levels". The firm stressed this was a board decision. Salomon's compensation year runs from October to September. Last October, the group announced a new scheme for this year which tied managing directors' bonuses to the return on equity earned by the firm. This

caused widespread discontent, as the poor results the company was suffering would have eliminated bonuses, cutting salaries to a base of \$400,000 for some of the 200 managing directors. This is well below top pay levels at other big Wall Street firms. Around 20 managing directors resigned following the establishment of the new system, and in April the company amended the scheme by setting up a fund to

top up earnings of the better-performing managing directors. At the group's annual meeting, Mr Maughan said the group would be "flexible on detail" about the pay scheme but "essentially we stuck to the notion we can only get paid well if shareholders do well". Mr Michael Flanagan, of Lipper Analytical Securities, said the latest move "represents one step

forward for employees and two steps backward for shareholders and the industry". It was a reverse from the original plan which, he said, showed Salomon Brothers "taking an industry lead in arresting compensation expenses". But he said that the change in the pay scheme "should stem the defections for a while".

Lex, Page 16

## Berlusconi calls for elections after referendum victory

By Robert Graham in Rome

Mr Silvio Berlusconi, the former Italian prime minister, yesterday called for a general election in the autumn and relaunched himself as a leader of the rightwing alliance.

The initiative was Mr Berlusconi's response to his victory in Sunday's referendum that rejected moves to curb his dominance of commercial television. In a pre-recorded video message, Mr Berlusconi also repeated his commitment to opt for a sale of the firm's television interests, valued at \$2.5bn.

He said negotiations for a sale were at an advanced stage but he declined to name the likely buyer and the time-frame in which such a deal might be arranged. Mr Berlusconi appeared to opt for a sale whereby the family would retain one third, one third would go to institutional investors and the rest to a foreign media company. The political uncertainties caused by the referendum result saw the lira weaken sharply against the D-Mark. The lira fell to L1,185 losing almost L20 against the German currency amid reports of Bank of Italy intervention. The Milan bourse was also nervous, with shares falling 1.5 per cent.

Politicians on the centre-left were yesterday licking their wounds, having failed to humble Mr Berlusconi in the three referendums concerning his television interests. Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS), the core of the centre-left alliance, was cautious about a general election date. But in recent weeks Mr D'Alema has said an autumn poll

In recent weeks Mr Berlusconi has made a series of confused statements about his political future. He has oscillated between suggestions that he might retire from politics to denying his ambition to return to the prime minister's office. Mr Berlusconi's statement yesterday indicated that he clearly felt he had regained popular legitimacy. He said there was a need to return to "political normality" - a reference to end the technocratic government composed of non-parliamentarians which was formed without a clear parliamentary majority in January. The only alternative, he said, was to hold elections in the autumn.

**Sunday's voting weakens government support** ...Page 3  
**Editorial Comment** ...Page 17  
**Lex** ...Page 18  
**Fininvest's time out** ...Page 19

was unavoidable and that the main hesitation was coming from the Berlusconi camp. This was because Mr Berlusconi and his allies were awaiting the referendum outcome. "As far as the political horizon is concerned I can confirm with great emotion and sincerity the choice I have undertaken," Mr Berlusconi said. "The political movement I have founded intends to lead this country with the rest of the Freedom Alliance, and I am at the country's disposition for this great project."

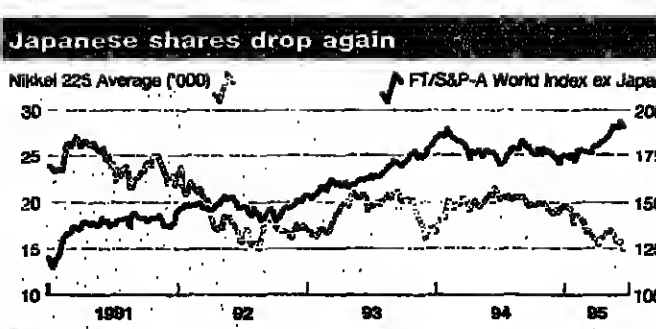
## Nikkei hits 34-month low amid Japanese bank fears

By Emiko Terazono in Tokyo

Tokyo stock prices fell 1.5 per cent yesterday to a 34-month low, reflecting deepening fears about the stability of the country's banking system and a faltering economic recovery.

Japanese authorities sought to calm the market after the Nikkei index slipped below 15,000 to close 230.73 points down at 14,813.46, as calls grew for the government to support banks with an injection of public funds. The Nikkei, which has fallen 25 per cent this year, was hit by statements yesterday by leading life insurers that they will reduce exposure to the stock market in the year to next March.

Mr Masayoshi Takemura, finance minister, denied claims from the House of Representatives that his ministry's package of measures to deal with bad loans had disappointed investors and undermined confidence in the market. Meanwhile, Mr Kiyosuke Shinzawa, the deputy finance minister, said further public funds would not be pumped directly into the stock market. Under a "price-keeping operation", known as the PKO, postal and state pension funds have been funnelled into equities since the Nikkei plunged to a six-year low in August 1992. Even though the PKO has been common knowledge in Japan, Mr Shinzawa only formally acknowledged yesterday that the



ministry had used postal funds. But he expressed doubts such a move would be effective in supporting the market this time, and acknowledged the support measures were controversial. Apart from public opposition to the PKO, the government has been forced to divert funds since the Kobe earthquake in Japan for the city's reconstruction.

**Lex** ...Page 18  
**World stocks** ...Page 38  
Investors had hoped the government's banking package last week would deliver specific measures to help the country's ailing banks, whose problems are considered to be at the root of asset deflation in Japan. The banks had expected the measures to include a direct injection of cash from the Bank of Japan or tax relief to help them liquidate problem loans. However, the finance ministry

insisted a public consensus was needed before such measures were taken. Analysts yesterday suggested that the ministry would wait to see if any further fall in share prices changed opinion on the use of public funds to help banks. The Bank of Japan said it would maintain the downward trend in short-term interest rates. The bank cut its key discount rate to a record 1 per cent low in April amid fears of a renewed downturn in domestic demand. Japan's largest lender to the industrial sector announced another cut in its long-term prime lending rate yesterday, to a new low of 3.1 per cent. The Industrial Bank of Japan said it was cutting its interest rate for its most creditworthy customers from 3.6 per cent. The cost of the bank's main source of funds, long-maturity debentures, has fallen as the economy has weakened in the wake of the yen's sharp rise.



Wim Duisenberg (left), president of the Bank for International Settlements, with Federal Reserve president Alan Greenspan (right) and Bundesbank chief Hans Tietmeyer at the BIS meeting. Picture: EPA

## World inflation goals 'at risk'

By Gillian Tett in Basle

The worldwide trend towards low inflation may be undermined by governments' failure to control their budget deficits, the Bank for International Settlements warned yesterday. Mr Wim Duisenberg, the BIS president, said after the bank's annual meeting in Basle that it was "too early" to declare the inflation battle won. "In too many countries the credibility of monetary policy is still at risk of being compromised by insufficient attention to fiscal problems. It would be regrettable, to say the least, if central banks' new policy approaches to controlling inflation were undermined by policy failures elsewhere." The BIS groups the world's

leading central bankers. After their two days of discussions in Basle, Mr Andrew Crockett, the BIS managing director, said there was little appetite for a revival of a managed exchange rate system like the Plaza accord of the 1980s. "The central bankers are firmly of the view that exchange rate stability has to flow out of fundamentals... I do not think there is any great support for trying to establish a system of exchange rates targets or target zones," Mr Crockett said. His comments seem likely to dampen speculation about the likelihood of any co-ordinated co-operation among the Group of Seven countries, meeting later this week at Halifax, to reverse the recent decline of the dollar. In its annual report, the BIS

noted that the average rate of inflation for industrialised countries sank to 2.5 per cent last year, even though industrial output was higher than expected at 3 per cent. "We would seem still to be on the longer-run trend towards greater price stability which was initiated by the policy shifts of the late 1970s," the report said. It warned that the coming months would show whether countries have avoided the policy mistakes that have dogged previous recoveries. Although the BIS believes that the new monetary frameworks

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Sober reflections on a year of turmoil, Page 4  
Editorial Comment, Page 17

# OMEGA

THE LINK BETWEEN THE PAST AND THE FUTURE

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## NEWS: EUROPE

## Sweden pledges to meet Emu criteria

By Hugh Carnegie  
in Stockholm

Sweden's Social Democratic government, which has struggled to control the country's deficit-ridden public finances since it took power last October, yesterday said it would meet the conditions for the final stage of European monetary union (Emu) by stabilising the public debt next year and eliminating the budget deficit in 1998.

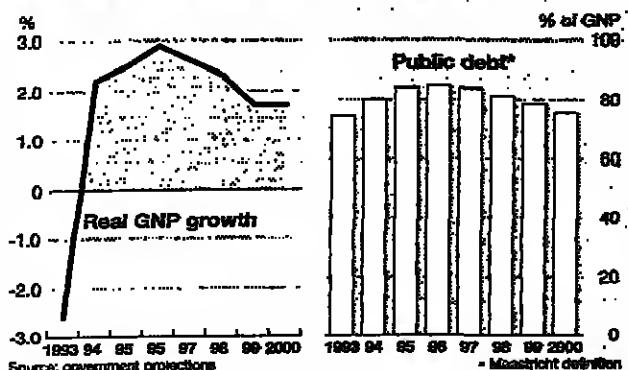
In an optimistic "convergence programme" to be submitted to the European Union on how Sweden will meet the Emu criteria, the government said a tough savings programme, modest economic growth and privatisation would swing the country back from the recent state of crisis to fiscal and monetary stability.

Mr Göran Persson, finance minister, said he did not rule out opening discussions as early as late this year on the re-admission of the Swedish krona to the EU's exchange rate mechanism - although the convergence document said this was not realistic until the restoration of balance in the economy was evident.

The krona was floated in November 1992 and has been consistently weaker ever since, now lying some 25 per cent under 1991 levels.

Both Mr Persson and Mr Ingvar Carlsson, the prime minister, have signalled they favour Sweden joining the final stage of Emu, including a single currency. But there is strong opposition within Social Democratic ranks and the government has instead concentrated on meeting the Emu criteria as a desirable end in itself, regardless of whether Sweden joins.

Swedish growth and debt to the year 2000



As expected, the chief new elements in the convergence programme were a pledge to raise SKr50bn in privatisation receipts by 2000 and to strengthen the budget, if necessary, by a further SKr18bn in 1997 and 1998.

The latter comes on top of spending cuts and tax increases already introduced worth SKr117bn - or some 7.5 per cent of gross national product - over the next four years.

On the five criteria for participation in Emu, the government forecast that these measures would result in the level of state debt peaking - according to EU definitions - at 84.8 per cent of GNP next year, while the budget deficit would fall below 10 per cent of GNP this year and decline steadily to almost zero by the end of 1998.

It predicted annual inflation would remain below 3 per cent for the rest of the decade, the krona would strengthen steadily, and long-term interest rates would fall from current levels above 10 per cent to 8 per cent in 1999.

Mr Persson acknowledged the debt would remain well

above the 60 per cent level set for Emu, but said: "I have been advised to focus on the current (budget) deficit. If the deficit is under control and the debt is heading down, you meet the criteria."

There was little reaction from the financial markets yesterday as the contents of the programme had been well flagged in advance. But critics are concerned that the government's underlying forecasts are over-optimistic, especially those on growth and inflation.

The prediction of near-3 per cent GNP growth next year is well above most private-sector estimates; the size of the public sector in Sweden means public finances are acutely sensitive to overall growth levels.

According to government figures, public spending will account for 69.6 per cent of GNP this year, falling to 62.9 per cent in 1998, a level still well above European averages.

But the government is adamant it has administered most of the necessary medicine. "The worst is done," Mr Carlsson remarked yesterday. Attention would now be turned to measures to promote growth, he added.

## Ministry grapples with statistical disarray

## Warning on German industry output data

By Andrew Fisher in Frankfurt  
and Michael Lindemann  
in Bonn

German industrial production recovered in February but the figures should be treated with caution, the country's economic ministry warned yesterday.

The warning comes as the ministry struggles to overcome the statistical disarray caused by changing to new European Union guidelines.

The figures, which the ministry said would probably be subject to several revisions, precede the impact of the D-Mark's strong rise this year.

Companies in strongly export-oriented sectors have complained of the effect on their business. Yesterday Henkel, the chemicals group, said sales were only 2 per cent higher in the first five months without the D-Mark's surge, they would have been up 7 per cent.

Total industrial output in February showed a 2.9 per cent seasonally-adjusted increase over January which was down 6.6 per cent over December. Manufacturing showed a 1.2 per cent rise, but the biggest movements were in construction (up 22.2 per cent) and energy (down 7.4 per cent), reflecting mild weather.

Against the same month of 1994, February output was 4.6 per cent higher, with a 2.9 per cent rise in west Germany and 19.6 per cent in the east.

Among companies reporting buoyant business is Thyssen, Germany's biggest steelmaker. It expected to be able to raise steel prices further this year; there was no sign that demand for steel was levelling off.

Thyssen, which also has

wide-ranging engineering activities, said the strength of the D-Mark against other European currencies was unwelcome, but the volume of new business continued to rise.

Krupp-Hoesch, Germany's second biggest steelmaker, said new orders had risen 9 per cent in the first four months, but the company was feeling the strength of the D-Mark.

December and March, based on capacity utilisation figures from the Ifo economic research institute. But growth momentum slowed in the first quarter. "The data cannot yet be trusted," he said of the output figures.

Mr Richard Reid, Frankfurt-based economist at Union Bank of Switzerland, said output and order statistics would continue to show large swings because of statistical distortions.

Production should show moderate growth in the first two quarters to west Germany and higher growth in the east. But the full impact of the D-Mark's rise would show through in the second half, with a marked slowdown in production.

The rise in the German currency has led to downward revision of some economic forecasts.

Mr Hans Peter Stahl, head of the German association of chambers of commerce (DIET), last week said the dollar's weakness and high wage settlements had darkened the earlier outlook for the economy. "Japanese and north American companies manufacture at unit labour costs on average only some 55 per cent of those in Germany."

Thus, more companies were investing abroad. Exports would also weaken. The building industry would feel the impact of lower industrial investment, with total German construction spending likely to rise only 3 per cent in 1995 after nearly 8 per cent last year.

The DIET now expects German economic growth of 2.2-2.5 per cent for 1995, against 3 per cent forecast previously.

Mr Stephen King, economist at James Capel, UK stockbrokers, estimated German production probably rose between

way public contracts are awarded should be a priority in fighting corruption, particularly with regard to Portugal's big infrastructure programme, largely financed by the EU.

Tighter control over party financing is considered equally important. "Both the main parties are financed by large contributions in cash," said a university professor. He said no one knows how much has actually gone to the parties and how much has stayed in the pockets of the recipients.

The new legislation will obligate parties to publish details of all contributions. But the Socialists are concerned about the capacity of the Constitutional Court to audit party accounts effectively. An expected limit of E500m on individual company donations could also prove unrealistically low.

Party officials concede that accounts presented by the main parties have in the past been cosmetic. When the Socialists admitted spending above the legal limit on an election in 1991, they were fined less than \$350.

Under a new law - passed in 1993 but as yet untested - the two main parties will be allowed to spend E800m each on the coming election campaign.

This compares with normal expenditure in a non-election year of E650m each, of which the taxpayer provides about two-thirds.

Ultimately, replacing sleaze with transparency will depend on enforcement. "You have to have a proper judicial system operating and confer the means to carry out the job," said a company manager. "Otherwise fighting corruption is just a farce."

Trade unions and employers have told parliament that the

## Socialists plan withdrawals to beat Le Pen

By Andrew Jack in Paris

The French Socialist party yesterday pledged to withdraw from municipal elections in which it had no chance of winning in order to reduce the risk of victories by the extreme right National Front party.

The announcement came as political alliances across France were reformed ahead of run-offs on Sunday for the 500,000 local government seats up for re-election in the country's 36,000 communes.

Hit partly by "election fatigue" after last month's presidential election, on top of traditionally lower attendance for town hall elections, the number of voters who abstained in the first round in Sunday's municipal elections rose to a record level of more than 35 per cent.

Nationally, the left-wing parties - dominated by the socialist and communist parties - scored slightly below their levels in the last municipal elections in 1989, confirming France's shift towards the right.

However, the Left managed to increase its level of support substantially from the presidential vote, partly reflecting the importance of local issues and the performance of incumbent mayors.

Final results gave the National front 4.3 per cent of the vote nationwide, less than a third of leader Jean-Marie Le Pen's presidential score of 15 per cent last month. But the National Front did not run

nationally and the result masked spectacular breakthroughs in some large towns.

The Front will go through to Sunday's run-offs in 18 towns with more than 100,000 inhabitants.

In the industrial town of Vitrolles, north of Marseilles, Mr Le Pen's number two, Mr Bruno Magret, polled a record 43 per cent, virtually assuring the National Front victory in Sunday's run-off. The Front also came first in nearby Toulon and Marignane.

In Paris, Mr Jean Tiberi seemed set to replace Mr Jacques Chirac as the new president's anointed choice as the mayor of the city.

Mr Alain Juppé, the prime minister, won outright the election as mayor of Bordeaux, taking the seat handed to him by the veteran politician, Mr Jacques Chaban Delmas.

A number of other high-profile politicians will nevertheless be forced to take part in a run-off because they failed to reach the 50 per cent threshold for outright victory.

These include Mr Valéry Giscard d'Estaing, the former French president, who is challenging the socialist party in Clermont-Ferrand.

Mr Raymond Barre, the former prime minister running for the first time as mayor of Lyons, came marginally ahead of a socialist and a right-wing candidate supported by Michel Noir, the incumbent who decided not to run again after his conviction in a corruption trial earlier this year.

## Portugal tackles corruption

Political sleaze has become an election year issue, writes Peter Wise

There is no equivalent in the Portuguese language for the English word "sleaze", but illicit enrichment in political life is holding centre stage in the campaign for October's general election.

Mr Fernando Nogueira, elected as head of the ruling Social Democrats (PSD) in February, has put cleaning up public affairs at the centre of his attempt to restore confidence in the centre-right party, the main victim of a deep loss of faith by the public in Portugal's politicians. "Our concern is to restore the credibility of politicians and heal the rift between citizens and their elected representatives," said Mr Francisco Antunes da Silva, the PSD's deputy parliamentary leader. "We are not simply hunting votes."

Mr Nogueira, 44, is a striving to assert his leadership after taking over at the head of the party from Mr Anibal Cavaco Silva, the incumbent prime minister, who is stepping down in October. The PSD, in power since 1985, is trailing the opposition Socialists by about 6 points in opinion polls. Despite resistance from within his own party, Mr Nogueira succeeded in winning parliamentary approval of bills to tighten up political ethics, the climax of a clean-up campaign under the banner of "transparency".

But critics fear the measures, chiefly aimed at averting conflicts of interest and monitoring the financial affairs of public officials, will prove inadequate for attacking what they consider the two main roots of corruption - the way public contracts are awarded and political financing.

One senior economist said there was a high level of corruption in Portuguese central and local government. "International institutions involved in financing big projects have been appalled by the lack of control over how money is spent," the economist said.

Cases that have made corruption a pressing issue include the investigation of more than 1,600 companies suspected of avoiding tax payments totalling E250m (\$18m) in 1991 and 1992 by declaring false invoices. Some of the illicit funds are alleged to have been used to bribe officials to gain contracts and to finance political parties.

Last December the PSD's former parliamentary leader, Mr Domingos Duarte Lima, resigned and is seeking to clear his name after a newspaper cast doubt on the legitimacy of his personal wealth. A former secretary of state for health and the brother of a former health minister are appealing



Fernando Nogueira, head of the ruling PSD, plans a clean-up

against convictions in a fraud case involving the ministry. Police also have several hundred cases of suspected misuse of European Union funds on their books.

Mr Nogueira's "transparency" package will go some way towards countering the kind of abuses alleged in these cases. Party leaders, MPs and most public officials will have to make annual public declarations of their income.

MPs will have also to have to register professional interests to avoid possible conflicts. "These measures to separate public from private interests are a positive step forward," said Mr António Martins, a Socialist MP and head of the parliamentary ethics committee. "But they fail to address some of the country's main concerns over corruption and political conduct."

Trade unions and employers have told parliament that the

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## Sun shines on Russia's last resort

By Matthew Kaminski in Sochi, Russia

Boris Nikolayevich Yeltsin, wearing black aviator sunglasses, enjoyed a break at the pool side at the Radisson Lazurnaya, Russia's first elite holiday resort, during a break in talks with the Russian president in his Ukrainian counterpart last Friday.

Not unlike Yalta at the end of the second world war 50 years ago, a pleasant setting had been chosen to tackle a knotty problem - the division of the Black Sea Fleet, now shared by the two biggest Slavic countries.

But the summit on what Russians generously call their Riviera served more to highlight the seismic shifts in the ex-Soviet world over the past four years than to settle the long running dispute.



Sea holiday town, Sukhumi, not only lies in independent Georgia but was ravaged in the 1992-93 separatist Abkhazian war.

Only Sochi remains. The subtropical resort town, with more than 80 sanatoria and, personally, many built in Stalinist Gothic style, still attracts the older, fleshier crowds to the pebble beaches and spas beside the green Caucasus mountains.

But the Radisson Lazurnaya, opened last year, is the preserve of the New Russians. On the beach last weekend cellulose was out. The aroma of western sun tan oil, noticeably absent in central Sochi, mixed with the smell of barbecues. Parasailers flew off every 20 minutes.

At night, the resort offered a casino, night club and disco. But the newly rich are usually

young, and on Saturday the disco was the biggest hit. Among the luminaries spotted on the second floor balcony was Oleg Boiko, the 30-something Russian millionaire who made a fortune with privatisation vouchers.

Radisson, the US hotel group, manages the complex. The owners are Gamma and Erna, two Turkish companies, and the Sochi city government. A big stake also belongs to Gazprom, the Russian gas giant, once headed by Viktor Chernomyrdin, the prime minister and renowned Gazprom shareholder, who also strolled comfortably in a sleeveless shirt near the pool but spent his vacation (which overlapped the summit) elsewhere in Sochi.

Business appears brisk. The resort had a few slow months but the management said the

summer has been all but booked up.

After a swim at Radisson's indoor pool on Friday, Mr Yeltsin decided to stay for the weekend - which for all Russians was a long weekend because of Independence Day yesterday - but at the government dacha nearby. He joined the already vacationing Mr Chernomyrdin and Yuri Luzhkov, the Moscow mayor, to make Sochi briefly the centre of Russian political power.

At the signing ceremony on Friday, where the neighbouring countries divided the fleet in half and agreed to permit Russia to have its ships in Sevastopol, Mr Yeltsin, in buoyant spirits, declared the next Russo-Ukrainian summit ought to be in Crimea. Mr Leonid Kuchma, Ukraine's president, who did not answer, looked visibly uncomfortable.

## EUROPEAN NEWS DIGEST

## Baltic states sign EU accords

The three Baltic states yesterday signed association agreements with the European Union. Estonia, Lithuania and Latvia are the only former Soviet republics that have secured such accords, in part because they were independent before the second world war.

"The Baltic countries have come back into Europe," said Mr Maris Gailis, Latvia's prime minister, at a ceremony in Luxembourg with EU foreign ministers. "We have been waiting for this day for more than 50 years."

The association agreements offer trade and co-operation deals, but also hold out the prospect of EU membership at a later date. Mr Gailis and Mr Tihit Vahi, Estonia's prime minister, said the Baltic states aimed to become full members by the end of the decade. Poland, Hungary, the Czech Republic, Slovakia, Bulgaria and Romania already have association agreements and have begun preparing their laws, and systems to match those of the EU. Slovenia is hoping to sign later this month.

Cyprus and Malta signed agreements yesterday to begin talks towards membership of the EU. Negotiations are set to start six months after the end of next year's review of EU treaties. *Reuter, Luxembourg.*

*Reuter, Brussels.*

## South Africa to get new pact

EU foreign ministers yesterday approved a mandate for the European Commission to negotiate a free trade and aid agreement for post-apartheid South Africa.

The mandate provides for a possible Ecu25m (\$318m) in aid spread over the next five years, as well as the prospect of an eventual free trade pact between the EU and South Africa. But the immediate market access arrangements remain subject to further negotiations between Brussels and the Pretoria government.

Britain, Germany and the European Commission pressed hard for an agreement at yesterday's Luxembourg ministerial meeting. Spain had initially hinted it might block a deal because it was dissatisfied with separate bargaining on the terms of a new aid package for the Mediterranean.

Madrid lifted its reservations on the understanding that the planned Ecu125m aid tranches for South Africa would be reviewed each year in EU budget negotiations. This is expected to be the same procedure covering foreign aid to former communist central Europe and the Mediterranean. Ministers yesterday agreed to tilt the balance of future funding to North Africa and the Middle East, but failed to settle on exact sums. *Lionel Barber, Brussels.*

## Flynn calls for jobs overhaul

Mr Padraig Flynn, European Commissioner for social policy, called yesterday for an overhaul of European work and welfare policies as the first step to reducing Europe's 11 per cent unemployment rate. Mr Flynn said the thrust of policy had to put jobs and training first, with unemployment compensation used as a last resort. This was the only way to find a path "between the United States' paradox of high job generation and poverty wages and the European paradox of high welfare and low employment".

Mr Flynn also rejected suggestions that employment levels should be used as an additional criterion for economic and monetary union. Employment was not a "matter of statistical criteria", he said.

Unemployment in the EU's 15 member states dropped marginally to 11 per cent in April, or 18.2m, compared with 11.4 per cent last year, Eurostat, the EU statistical office reported yesterday. Joblessness among the under-25s remained stubbornly high at nearly twice the overall EU average, or 21 per cent. *Caroline Southey, Brussels.*

## EU warns on Philip Morris ads

A controversial advertising campaign relaunched across Europe by Philip Morris, US maker of Marlboro cigarettes, could backfire on the company, EU officials said yesterday. The company ran advertisements in newspapers in six EU countries and yesterday changed the wording of ads sharply criticised by the European Commission last month as misleading. The advertisements are part of the company's campaign against national laws proscribing where and when people can smoke.

An EU official said: "The campaign might be helping the Commission. Member states are beginning to express greater willingness to agree an EU-wide ban on tobacco advertising in newspapers and periodicals." But Mr David Greenberg, vice-president of corporate affairs for Philip Morris European Region, said the encouraging response from smokers to the company's campaign "is so high, we feel compelled to keep going".

One of last month's ads said, for example, that the 10 commandments were expressed in 179 words but "recent European legislation concerning when and where you can smoke" takes 24,942 words.

Mr Flynn attacked the ad, saying that there was "nothing on EU statute books which lays down regulations on when and where you can smoke". Philip Morris said it was referring to 41 national laws, and has changed the wording to "recent legislation in Europe".

*Roderick Orum, London and Caroline Southey, Brussels.*

## ECONOMIC WATCH

## Scant rise in French prices

France

Inflation, annual % change in CPI



Source: Datastream

French consumer prices rose 0.2 per cent in May, giving an annualised inflation rate of 1.8 per cent, according to Insee, the national statistics office. The figures showed the continued weakness of inflationary pressures in France, despite economic recovery after the recession of 1992-1993. Gross domestic product is forecast to rise about 3 per cent this year, similar to the 1994 level. Although inflation is subdued, the central bank has remained cautious about monetary policy. Economists believe it is awaiting details of the new government's fiscal plans, particularly concerning the reduction of the budget deficit, before easing borrowing costs. The key intervention rate, the floor for money market funds, has been kept at 5 per cent, and the 24-hour lending rate at 7.75 per cent since early April. Food prices last month rose 0.5 per cent, largely reflecting a sharp increase in the cost of fresh produce. Manufactured product prices edged up 0.1 per cent, as did those in the service sector. *John Edding, Paris.*

■ The Bundesbank said final M3 money supply for April contracted at an annualised rate of 1.6 per cent against the fourth quarter of 1994. The Bundesbank had provisionally reported a contraction of 1.8 per cent.

■ The percentage of Spain's total workforce registered as unemployed fell to 15.56 per cent in May from 16.16 per cent in April, the labour ministry said.

■ Spain's producer price index rose 7.4 per cent in April from the same month in 1994, the national statistics institute said. The index increased 0.3 per cent in April from March.



# British hope to build new 'French connection'

By Lionel Barber  
in Luxembourg

Britain is confident it can recruit the new Gaullist government in France as an ally to block German efforts to introduce more majority voting in EU foreign and defence policy, a senior UK government source said yesterday.

British hopes of building a new "French connection" emerged as the Christian Democrat party, which heads Germany's coalition government, prepares today to revive calls for deeper political integration to complement the future sin-

gle European currency replacing the D-Mark.

The idea, often mooted in London, of developing an *entente cordiale* to counterbalance the pre-eminent Bonn-Paris axis in Europe has usually ended in disappointment. But after weekend talks in Paris between President Jacques Chirac and Mr John Major, UK prime minister, senior British officials are more confident of a breakthrough.

Their optimism is based primarily on experience in Bosnia, where the Anglo-French decision to create a rapid re-

## Waigel urges restrictions in EU majority voting

Germany should oppose EU reforms leading to majority voting on tax and financial issues in next year's intergovernmental conference, according to Mr Theo Waigel, German finance minister, Reuter reports. He told Focus magazine he supported some extension of majority voting to streamline decision-making, but unanimity should remain the rule on areas of vital national interest, such as tax and finance.

Mr Waigel served notice, again, that Germany intends to take a hard line on the size of the EU budget. Germany's payments had doubled to more than DM27bn (£12bn) in the past six years. "Our neighbours have to be aware that this is not acceptable in the long term."

He added that the planned expansion of the EU to include east European states could cost DM70bn a year.

viewed as a seminal event leading to more flexible patterns of EU co-operation. London and Paris took the decision to stay in Bosnia, said the senior UK source. The decision was accepted by the US and Russia; Bonn was "out of the game".

The reality was that Germany would remain out of the defence game for the foreseeable future because of restrictions on its ability to deploy troops overseas. Foreign policy in Europe would be driven by those with "the will and the assets", rather than those pushing "theoretical frameworks", said the source.

The forthright British statement reflects irritation that the CDU and its sister CSU party (with Chancellor Kohl's support) are about to launch a second trial balloon calling for more majority voting in foreign policy, and a merging of

the EU and its fledgling Western European Union defence arm. Both are anathema to the governing UK Conservatives.

The senior British government source denied that the UK was being "bloody-minded" in its resistance to more majority voting. It was simply unrealistic to assume that countries invoking vital national interests could be steamrollered, or that it would lead to a more muscular EU policy in central Europe and the Balkans.

The CDU/CSU papers deal with the future of EU foreign policy and justice and immigration. Neither is likely to be

as explosive as last year's document which called for a "hard core" of committed integrationists composed of France, Germany and the Benelux countries, to the initial exclusion of Britain and Italy.

The British source said the present foreign policy structures set down in the Maastricht treaty did not require radical overhaul, nor was it necessarily a good idea to create a new foreign policy supreme representing the EU on the world stage. However, he left open the possibility of some increase in powers for European parliament.

## Outcome of Sunday's voting weakens government support base

### Italian referendums bring elections nearer

By Robert Graham in Rome

The chances of an autumn general election in Italy have increased following the results of the 12 referendums at the weekend.

The outcome has weakened the support base for the Mr Lamberto Dini's government, while the problems of sustaining a stable parliamentary majority have increased. Only a broad agreement among all the main parties on a specific new legislative programme could prolong beyond autumn the life of the five-month-old government of non-parliamentarians. But such an arrangement is hard to envisage in the present political climate, as is the formation of a new administration.

The obvious beneficiary of the referendums has been Mr Silvio Berlusconi, the former prime minister. He fought off a challenge to the ownership by his Fininvest empire of three television channels, as well as moves to curb his virtual monopoly of commercial television advertising.

On the three referendums affecting Fininvest, the vote backing Mr Berlusconi averaged 56 per cent. This is a higher percentage than any of

his previous approval ratings and compares with the 41 per cent vote obtained by his right-wing alliance in the April regional and local elections. The strong endorsement seems as much anything to have been support for Fininvest television and a disinclination to penalise him for owning three channels under the 1990 law approved by Italy's then political masters.

Nevertheless, Mr Berlusconi will use the result to bolster his political fortunes and to reassert his hold over an increasingly disparate alliance. Since being elected from the premiership last December he has pressed in vain for early elections.

This has led him to oppose the government at every turn. To back down now when its limited mandate is nearly exhausted would be a big tactical shift. It would only be justified if the government's life needed to be prolonged. But Mr Berlusconi would benefit little from postponing elections. Indeed, the sole proponents of this strategy in his camp have been the small former Christian Democrat parties which still dream of re-forming a centrist bloc. The latter have been profiting from Mr Berlusconi's

diminished stature and would have been the first to exploit a defeat in the referendums.

The main losers have been the centre-left who mistakenly allowed the vote to become an exercise in penalising Mr Berlusconi. They also overestimated the value of their own message and were overwhelmed by the vastly superior propaganda resources of Fininvest's TV channels which Mr Berlusconi used ignoring all rules of fair play.

Although this vote cannot be directly translated on to the centre-left as the backers of Mr Dini's government, some effect is bound to rub off. Losing the anti-Berlusconi referendums will make this loose alliance of parties nervous about sustaining the present government beyond its declared mandate.

The Party of the Democratic Left, the core of the alliance, even before the referendum predicted an autumn election. To wait any longer would also put at risk the position of Prof Romano Prodi, the economist and former head of IRI, the state holding company, as the centre-left's candidate for the premiership. Chosen in February and without a party base, Prof Prodi cannot be kept in the wings indefinitely with-

out losing his appeal.

Finally, the referendums produced one big surprise. Voters turned against the power of the three main union confederations. The unions have been main protagonists of pensions reform, and the proposals before parliament are a product of the deal struck between them and the government. This anti-union sentiment could be exploited in parliament both to delay and alter the legislation.

Approval of the pensions reform is a central pillar for

the improvement of Italy's public finances and will also condition the formulation of the 1996 budget. If elections are to be held in the autumn, the budget must first be approved. Arguably, with Mr Berlusconi having recouped some of the initiative following the trouncing he and his allies received in April, the conditions exist to strike a deal over the budget. But Mr Berlusconi has so far eschewed such deals. Thus uncertainties again cloud the political landscape and the lira fell sharply yesterday.

## Public vote leaves MPs wide choice of action

By Robert Graham in Rome

With Italy's 12 referendums out of the way, attention now shifts to parliament to produce legislation.

Judging from the 29 topics voted on in referendum since 1974, parliament can exercise a significant degree of discretion interpreting the will of the voter who has been asked merely whether or not existing laws should be abrogated.

In the case of television, a special media commission was set up early this year under Mr Giorgio Napolitano, a former speaker of the chamber of deputies, to prepare legislation for the reform of commercial and state television.

A law already exists in draft form on commercial television but agreement was blocked by the Berlusconi camp pending the outcome of the referendum.

The Forza Italia movement of Mr Silvio Berlusconi and its rightwing allies are in a minority on this commission. The first battle will be whether the vote has removed the members' legitimacy.

But the main conflict will be about how the referendum vote squares with the constitutional court's decision of last January ordering Mr Berlusconi to divest one channel by 1996.

Mr Berlusconi and his sup-

porters are arguing for a wholesale liberalisation of the entire television sector (cable etc) to allow in more operators, so diluting Fininvest's dominance.

With a referendum also endorsing the privatisation of the RAI, the state broadcasting organisation, there will be strong pressure to review the sector as a whole.

Any move to end public broadcasting is likely to be slow and the wording of the RAI referendum merely called to end the ban on private capital.

The other main political referendums concerned trade union matters. Parliament will now have to devise legislation that ends the rigid laws covering who is allowed to represent workers as unions. The control exercised throughout the post second world war era by the three confederations (CGIL, UIL, CISL) reflected the political divisions of power (Communist, Christian Democrat and Socialist).

The reforms also loosen this hegemony by ending the practice of automatic deductions of union contributions from pay packets by employers, and by allowing new representative groups. A significant beneficiary here could be the well organised militant groups on the left (who backed three of these referendums). The unions themselves are also

likely to lose some members with the automatic deduction system withdrawn.

One of the closest votes was the 50.6 per cent rejecting moves to roll back the 1993 local elections law introducing a first-past-the-post system with a second round run-off where no one obtained an outright majority. This was opposed across party lines, though put forward from within the Berlusconi camp by Mr Marco Pannella's Radical reformers. The law has proved one of the more successful in the electoral field, enabling stable municipal majorities to be formed.

The public voted by a long chalk against liberalising shopping hours. This demonstrated the ever powerful shopkeepers lobby and revealed a trend towards conservatism in an otherwise "liberal" tone to Sunday's vote.

Voters coped with the complexity of the 12 separate referendum questions, but in the south the turnout was only 40 per cent. If this uninterest had been shown countrywide, the referendums would have failed to achieve a valid quorum.

The turnout was low compared to past referendums, and politicians in legislating will be able to play with the fact that no issue had the backing of more than 35 per cent of the total electorate.

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## NEWS: INTERNATIONAL

# Kuwait puts off recovery of bad debts

By Robin Allen in Dubai

The Kuwait government is to delay its attempt to recover part of the KD4.5bn (\$15bn) worth of bad debts it took over in 1992 which were owed by 3,500 people who had lost money in the crash in the unofficial stock market almost 13 years ago.

The decision, reached at a cabinet meeting on Sunday, is in part prompted by fears of a "fire-sale" of private Kuwaiti assets on the stock exchange which threatens to undermine the country's fragile economic recovery.

In July 1992, the state bought KD5.9bn (\$19.7bn) worth of personal and corporate debt - about the equivalent of the country's gross domestic product - in return for debt bonds issued to the commercial banks.

According to the central bank governor Sheikh Salem Al-Sabah, there are about 3,500 people or companies with debts, after discounts, amounting to KD2.2bn, should be paid by next September 6; and some 50 debtors owing KD15bn who had longer to pay.

In a draft bill to be presented to the economic committee of the national assembly, the gov-

ernment proposes to give those with debts due in September an extra three years to repay, and the second category an extra 20 years instead of 12.

But the government's proposal will run into stiff opposition from the national assembly. Much of the hostility in the opposition-dominated national assembly comes from those who are convinced members of the ruling family are among the main debtors; and further delay would discriminate unfairly against those who have already settled.

In the longer-term it would add to a general conviction among debtors that as time passes the bad debts laws will be so watered down that in the end they will not be obliged to pay at all.

Mr Jassem al-Saadoun, an economist, is among many who are sceptical about the possibility of a stock market crash should the government's proposal be rejected by the national assembly. "If not passed, the debts will be settled; the market will fall initially but then pick up as people realise the price-earnings ratios are very low and shares cheap," he said.

# Sober reflections on a year of turmoil

There is a tone of relief in the central bankers' review of the world financial system, writes Gillian Tett

As befits the central bankers' bank, the language was sober. But when the Bank for International Settlements held its annual general meeting yesterday, its reports had a tone of relief at having survived a tumultuous year.

Part of the sense of battering stems from the turmoil in bond prices last year which triggered a degree of market shock that the BIS said had not been seen since the stock market crashes of 1929.

However, the shock has been compounded by recent heavy losses associated with derivatives, the Mexican financial crisis at the end of last year, the collapse earlier this year of Barings, the UK-based merchant banking group - and then the huge decline of the dollar against the yen.

For the moment, the banking officials who attended the meetings at the BIS - an independent institution owned by 32 central banks - are determined that it should be business as usual.

Indeed, the very fact that the world's financial system has survived relatively unscathed has been taken as proof of its underlying health.

"The global financial system has proved very resilient to the cascade of diverse shocks which characterised the past year, which is encouraging," the BIS said in its annual report.

However, the decision by Mr Wim Duisenberg, the BIS presi-



Wim Duisenberg: explaining market swings

dent, to devote the better part of his speech yesterday to seeking explanations for the market swings, provides one hint of the soul-searching that the events of the past year have provoked.

Echoing the scoldings that have long been emanating from other international bodies, such as the Organisation for Economic Co-operation and Development, Mr Duisenberg partly blamed the problems on debt in countries such as Italy, Sweden and Canada - and issued fresh appeals for governments to take action.

Although some BIS officials believe that the dollar's recent movement may have been exaggerated, its weakness could be partly explained in terms of fundamentals, he suggested.

"Given the underlying balance of payments situation, the relative movements of the dollar and yen earlier this year

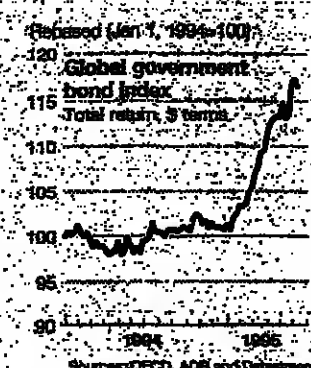
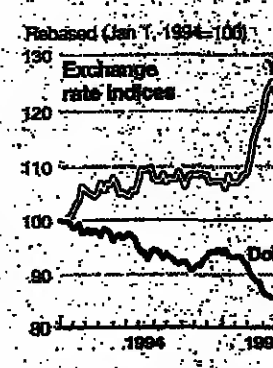
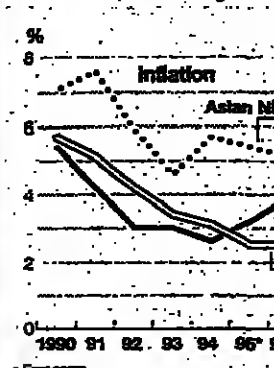
were probably in the right direction," Mr Duisenberg said.

The BIS report notes that 1994 was the first year since 1914 that US net investment income from overseas had turned negative, contributing to a total US deficit of \$155bn.

Furthermore, this growing US deficit apparently went hand in hand with a shift away from official financing of the gap - although the BIS admits that there may have been more "hidden" official financing occurring than previously realised. Official dollar deposits in Euro-bank accounts jumped by \$33bn. In addition, there was a \$26bn increase in Japan's foreign exchange reserves and a \$30bn increase in China's reserves.

The BIS notes that "in view of this concentration of reserve gains in Asia, it is not surprising that the issue of diversification of official holdings away from the dollar into the yen

## A tumultuous year



Source: BIS, OECD, ADB and others

has attracted greater attention recently."

Mexico's problems could also be partly blamed on faulty fundamentals, the BIS argues, pointing out that "a balanced fiscal position does not ensure macroeconomic stabilisation; external balance and other considerations also matter."

Although some capital controls might be occasionally useful in emerging markets, to prevent a repeat of the Mexican situation, capital controls as a whole were not a simple solution - and could only be effective in combination with macroeconomic stabilisation programmes, Mr Andrew Crockett, BIS managing director argued.

Meanwhile, the BIS insists that the main onus for avoiding a repeat of derivatives scandals lies with market traders and companies themselves.

Companies should introduce more disclosure and transparency, particularly in relation to their willingness to assume risk, the BIS argues. And in the aftermath of the Barings collapse, Mr Crockett yesterday called on companies to reform the system of bonuses they pay to traders, to ensure they reflect the degree of risk in their dealings.

"The BIS suggests that the recent swing away from complex derivatives to the simpler 'vanilla' variety provides a sign that the financial world is on the path to overcoming the problem partly of its own accord - a free market solution that has left some BIS officials hoping that this year might yet be a little quieter than the last."

On inflation, the report says: "We would seem still to be on the longer-run trend towards greater price stability which was initiated by the policy shifts of the late 1970s."

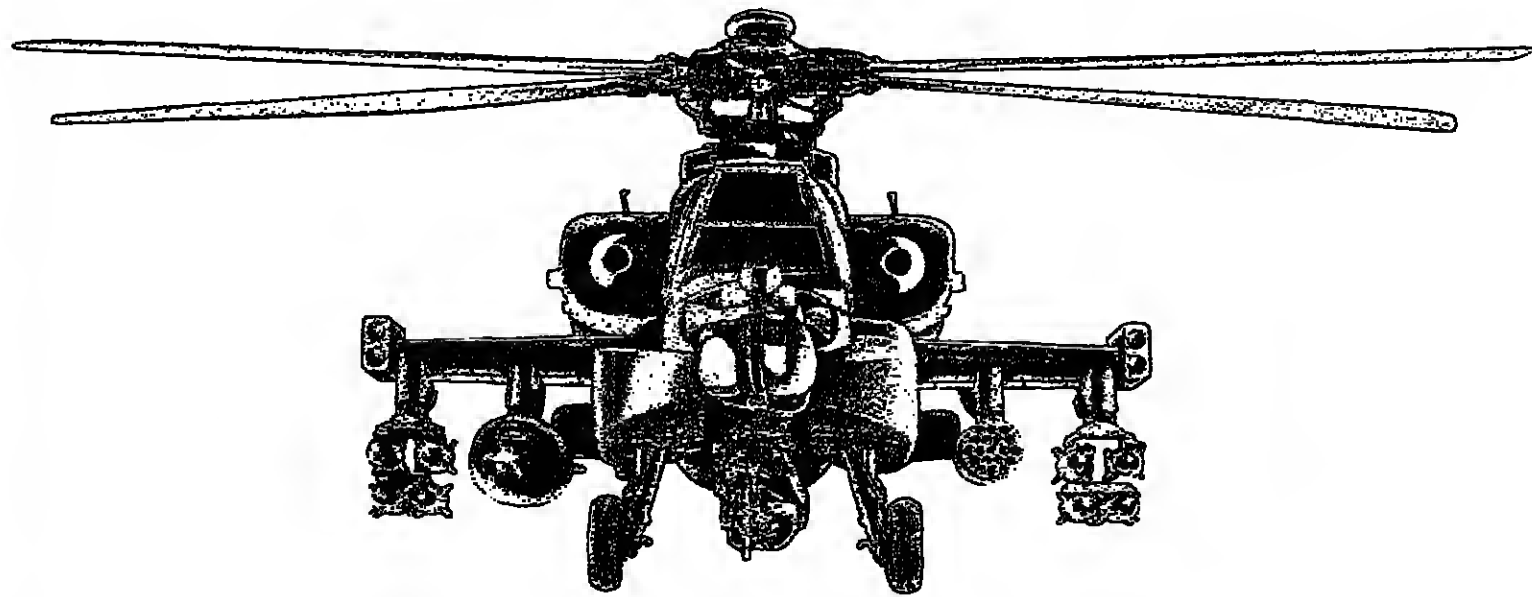
OTC derivatives surge, Page 32

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MCDONNELL DOUGLAS

## Motor neurone drug success

By Clive Cookson, Science Editor

The most encouraging results obtained so far for any treatment of a degenerative nerve disease were announced yesterday by Cephalon, a US biotechnology company.

A clinical trial of 266 patients with amyotrophic lateral sclerosis (also known as ALS, motor neurone disease or Lou Gehrig's disease) showed that Myotrophin, a drug made by genetic engineering, significantly slowed degeneration.

"The results of this study are dramatic and clearly herald a change in the way we treat this devastating disease," said Dr Dale Lange, co-director of ALS treatment at New York's Columbia-Presbyterian Medical Centre. "For the first time, we have an agent with a strong basic science rationale verified by a clinical trial."

In the nine-month study, undertaken at eight hospitals in the US and Canada, patients who received Myotrophin injections showed 25 per cent less deterioration than those who received placebo (dummy) injections. They were therefore able to maintain an independent lifestyle for several months longer.

ALS is a wasting disease characterised by the progressive degeneration of motor neurones, the nerve cells that control the movement of muscles. There are an estimated 30,000 patients in the US and 5,000 in the UK.

Famous sufferers include Lon Gehrige (baseball star), David Niven (actor) and Don Revie (football manager). Patients typically die within two to five years. Prof Stephen Hawking, the Cambridge University cosmologist, has an exceptionally stable form of ALS.

Myotrophin is a human protein called insulin-like growth factor-1 or IGF-1, made by genetically engineered cells in culture. It stimulates the sprouting and regeneration of nerve cells.

IGF-1 cannot stop the underlying disease process or cure ALS (whose ultimate cause is unknown). But the Cephalon results suggest it may enable the motor neurones to keep functioning for a few extra months or even years.

The same drug is likely to help patients with other conditions affecting the nervous system outside the brain, such as diabetic neuropathy and post-polio syndrome.

## INTERNATIONAL NEWS DIGEST

### IAEA wants to boost powers

The International Atomic Energy Agency (IAEA) is seeking international backing to boost the powers of its inspectors who police worldwide curbs on the spread of nuclear weapons, officials said yesterday. The IAEA runs inspections to check whether nuclear materials have been diverted from civilian to possible military use.

Mr Hans Blix, director of the UN's nuclear watchdog, opened a week-long governors' meeting outlining the IAEA's efforts to raise the agency's effectiveness in monitoring global nuclear energy programmes. The board of governors, made up of officials from 35 of the 122 member states in the IAEA, would be asked to endorse two stages of tighter controls, said Mr David Kyd of the IAEA.

There were four key elements to the first stage of the IAEA's efforts to strengthen agency safeguards, Mr Kyd said:

- obtain greater access to nuclear sites;
- shorten the notice time for inspections by removing visa requirements for inspectors, which can alert a country that an inspection is forthcoming;
- begin environmental monitoring, including taking samples of soil, water and air, to search for signs of nuclear activity.

Mr Kyd said the second stage involved measures that would extend inspectors' mandate.

Reuters, Vienna

### Fears over Zaire arms airlift

Amnesty International investigators have confirmed that weapons and ammunition were being secretly airlifted to Zaire for use by the former Rwandan army and Hutu militias.

The London-based human rights organisation said it had confirmed reports that cargo aircraft registered in Ghana, Nigeria, Ukraine and Russia were arriving regularly at Goma airport in Zaire carrying arms from countries including Bulgaria and Albania. It expressed fears that the weapons could be used by former members of the Rwanda army and Hutu militias based in Zaire to carry out new killings.

"There looms a real possibility of large-scale human rights abuses, fuelled by the hand grenades, land mines, rifles, machine guns and ammunition being supplied to those responsible for last year's crimes against humanity," Amnesty's report said.

Reuters, London

### Palestinians to set up council

The Palestinians will establish their own city council in Jerusalem to underscore their political claims in the disputed city, senior PLO officials said yesterday. The move was likely to renew tensions between Israel and the Palestinians over the future of the city, after a crisis last month over Israeli land confiscations in Arab east Jerusalem.

Mr Faisal Hussein, minister in charge of Jerusalem affairs in Mr Yasser Arafat's administration, said the Palestinian cabinet approved the revival of the council in a weekend session. Mr Amin Majaj, 74, would be the new mayor of east Jerusalem.

AP, Jerusalem

### Walter Landor dies, aged 81

Walter Landor, founder of one of the first corporate identity consultancies, died on Friday at the age of 81. Mr Landor, born in Munich and trained in London, was a co-founder of Industrial Design Partnership, the UK's first industrial design consultancy. A trip to the US as part of the design team for the British Pavilion at the 1939 New York World's Fair took him to the West Coast, where he fell in love with San Francisco and settled there.

In 1941, he started Walter Landor & Associates, one of the first consultancies to use consumer research in design. Designs included the Levi's symbol, the Cotton mark, and packages and designs for Alitalia, British Airways, Miller Brewing, the World Wildlife Fund and the 1986 Atlanta Summer Olympics. Mr Landor retired in 1983, but returned to run the company briefly in 1989 after internal disagreements. It was sold to Young & Rubicam, the advertising agency.

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## NEWS: THE AMERICAS

## Blow to affirmative action in US

# Liberal policies dented by court

By Jurek Martin, US Editor, in Washington

The US Supreme Court yesterday issued two rulings that appear to strike at the heart of two controversial pillars of federal government policy - affirmative action and school desegregation.

The court sent back to an appeal court for further study a Colorado case over whether government programmes to assist minority contractors end up discriminating against white-owned competitors.

On a similar 5:4 verdict, the nine-judge court found, in a Missouri case, that court-ordered school desegregation programmes may be ended even if test scores of minority students have not reached national norms. In the first case, lower courts had ruled against a suit brought by a white-owned company which claimed it had lost a roads improvement contract to a minority competitor, even though it had submitted the lower bid, because of federal law giving a bonus to highway departments which award at least 10 per cent of business to minority companies.

In reversing a 1990 ruling that upheld affirmative action, Justice Sandra Day O'Connor wrote: "Federal racial classifications, like those of a state, must serve a compelling governmental interest and must be narrowly tailored to further that interest."

States may apply what is known as "strict scrutiny" in order to redress clear evidence of past, race-based discrimination, but federal laws have been more broadly directed. In applying tougher standards to the federal government, Justice O'Connor acknowledged that the ruling "alters the playing field in some important respects."

A similar judicial logic was evident in the case whereby the state of Missouri had petitioned to stop paying a share of the costs of a desegregation programme in Kansas City ordered by federal courts.

Chief Justice William Rehnquist, for the majority, wrote: "The insistence on academic goals unrelated to the effects of legal segregation unwarrantably postpones the day when [the Kansas City school district] will be able to operate on its own."

## A tale of trouble from the far west of Brazil

Angus Foster finds NGOs complaining to the World Bank about its projects in an Amazonian state

Brazil's north-western state of Rondonia is one of the country's poorest and many Brazilians cannot even place it on a map. But it is the site of a recurring bad dream for the World Bank, whose lending projects in the state have been surrounded by controversy for a decade.

An alliance of 30 non-government organisations from Rondonia, with support from international groups such as Friends of the Earth and Oxfam, will this week present a complaint to the bank's inspection panel, set up in 1993 to review bank projects.

This will be only the second appeal to the panel, a three-man independent body, and the first for a project under way. Bank critics say the case could be an important guide to the bank's independence.

"We don't want the project cancelled because it is important for the state," says Mr Luis Rodrigues, spokesman for the NGO group. "But we don't want it as it is because, from the point of view of achievement, there is nothing to show. The bank has to be more demanding and get the state government to act."

The bank's problems in Rondonia started 10 years ago when the \$457m (€287m) Polonoroeste project, which involved the paving of a 1,000-mile road



Barber Conable: ex-World Bank president

Picture: Tony Kohn

to improve communications for development of the region. The road spurred immigration, leading to rapid deforestation and invasion of tribal people's lands. Mr Barber Conable, then president of the bank, admitted in 1987 that the project was "a sobering example of an environmentally sound project gone wrong."

To undo the damage, the bank launched the Planafloresta (Rondonia Natural Resource Management) project in 1982 with \$167m of World Bank money. The project, a highlight at the Rio de Janeiro Earth Summit, was billed as a big step forward because it stressed environmental zoning. This sets limits on which areas can be developed and protects primary, or virgin, forest. It

was also aimed at helping people such as small farmers, rubber tappers and indigenous tribes whom big projects usually ignore.

According to the NGO complaint, none of the money has yet reached these intended targets and the project has caused serious damage to the region and its people. It says this is mainly because the bank failed properly to monitor the government of Rondonia state or to complain when that government breached the project's accords.

The most serious complaint concerns an accord which the Brazilian federal land agency, Incra, was supposed to sign with the Rondonia government. The accord was meant to make sure that such policies as

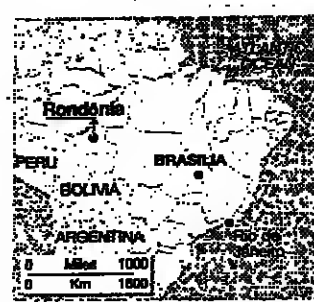
opening new farming areas respected the local environment and protected forest. As a mark of the accord's importance, it was made a condition for the 1992 lending accord to take effect.

Three years later, the accord has still not been signed. Incra, apparently unwilling to submit to the environmental monitoring which the accord involved, has settled people on hundreds of thousands of hectares of land in areas meant to be closed to development.

Mr Roberto Smeraldi of Friends of the Earth says more than 10,000 people, mainly landless farmers, have arrived in these areas, most of which have poor soil and which Planafloresta was meant to protect. Land titles issued by Incra led to invasions, land disputes and rapid deforestation.

Mr Emerson Teixeira, Rondonia planning secretary since a new government took over on January 1 after elections last year, says the accord will be signed "in the next two weeks," after a change of president at Incra. He also says his government will correct its predecessor's mistakes.

"Under the last government, all the project's resources were spent on bureaucracy and the civil service, in areas like salaries and consultants. For example, loans to small



producers are stuck in the state bank because of bureaucracy. Our government intends to implement exactly what was meant by Planafloresta, where the beneficiaries were meant to be the small producers and the Indians."

Mr Rodrigues replies: "The project doesn't interest the government, the project's resources do."

Planafloresta was also designed to establish various conservation areas to cover regions of special ecological or biological interest in Rondonia. By September last year, the state government was meant to have set up four "extractive" reserves (designed to manage forests with the minimum of damage), but only one has been created so far.

Two state parks, Cuiabá and Guajará-Mirim, were demarcated as planned, but not before their area had been

reduced by more than 200,000 hectares, apparently because of pressure from big forestry and farming companies.

The bank agrees that a land accord between Incra and the state government was a prerequisite for the loan, but that it went ahead on the basis of a "protocol of understanding" signed between the two sides in 1991. The bank also said that it had been "very active and outspoken" in condemning Incra's apparent lack of real commitment to agro-ecological zoning in Rondonia, and that a number of unsuitable Incra land expropriations had been stopped by World Bank intervention.

The bank also said the new state government was a "ray of light" for Rondonia's conservation parks because it is "fully committed" to the conservation system.

The inspection panel has to decide whether the bank erred in the past, but Mr Rodrigues says the project could yet succeed in the future. If the bank stands up to the state's politicians and insists that its environmental agencies must start working.

"But it seems to us that the bank is there just to lend money, and doesn't appear very worried about the results," he says.

## 1994: YET ANOTHER POSITIVE YEAR.

CONSOLIDATED BALANCE SHEET 1994

US\$m

Customer deposits	16,849
Loans to customers	14,816
Net income	91*
Total assets	30,245
Shareholders' equity	1,462

\*After the write-down to market value of the entire security portfolio

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Parent Bank's figures as at 31st December 1994

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Customer deposits	16,613
Loans to customers	13,651
Net income	93
Total assets	27,877
Shareholders' equity	1,320

(Exchange Rate Lira US\$ as at 31st December 1994: 1,629.74)

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Bill Clinton and Newt Gingrich: civility of discourse

## Bill and Newt - just cuddling up

Jurek Martin finds the president and the speaker making an unlikely couple

It has long been apparent that President Bill Clinton and Congressman Newt Gingrich, the Speaker of the House of Representatives, often talk and think alike, even if they generally come to radically different policy conclusions.

Now Washington and the country are having to come to terms with a new phenomenon: that the president, in conservative eyes the epitome of all that is bad in 1990s liberalism, and the Speaker, seen by liberals as intent on undoing all the social good works of the last 60 years, may actually be willing to co-operate.

The pure civility of their discourse in front of an audience of senior citizens in New Hampshire late on Sunday afternoon was striking. They agreed to differ, but only as reasonable people should, and both condemned the coarsening of public debate and the media's role in promoting conflict over conciliation.

Mr Gingrich was positively effusive in his generosity towards Mr Clinton and the president responded in kind. They agreed spontaneously on the need to form a commission on campaign reform and the power of lobbyists. Mr Gingrich more or less conceded that the foreign aid bill passed by the House just last week would have to be amended. Mr Clinton promised to work with Mr Gingrich to reform Medicare for the aged.

Both were sensitive to a constant strain in the questions put to them, that there is too much "sniping" and "the playing of special interests" in Washington politics, and not enough effort devoted to "the common good" of the country. "That's a very good question," Mr Gingrich answered.

But, inevitably, the political post mortems were mostly about who profited most from the exercise, which, though

shown on national cable television, was still not deemed important enough to break into Sunday sports on the networks.

It obviously did the Speaker's standing no harm for him to be judged worthy of sharing a forum like this with the president, a first in US politics. On the other hand, some White House advisers, such as Mr James Carville, did not mind elevating the Speaker because they - and the opinion polls - think he can be beaten if he runs for president, unlikely though that now seems.

Public attention on Mr Gingrich also has the temporary benefit of deflecting it from declared Republican candidate, especially Senator Robert Dole, the majority leader. Mr Mike McCurdy, the White House press secretary, was not above remarking that Mr Dole did not get much coverage over the weekend of his campaign trip to Iowa.

Mr Gingrich may, on the other hand, have disappointed his more fervent right-wing supporters for having let Mr Clinton off so lightly, for not having pushed the anti-government litany as hard as he might, and for conceding that legislation like the current foreign aid bill might never see the light of day.

The Speaker had, after all, not so long ago called the president "irrelevant" and only last week described him as "frankly pathetic", which is more the language expected of him. However, the New Hampshire audience was Clinton-friendly and Mr Gingrich's antennae would have been sensitive enough to pick up the vibrations.

Certainly, if Mr Gingrich disappointed his hard core, Mr Clinton will not have assuaged doubts among liberals that he is far too naturally inclined to accommodation, even with the right.

### CHINA

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## POWERFUL NEW GROUPING IN WORLD COMBAT AIRCRAFT MARKET

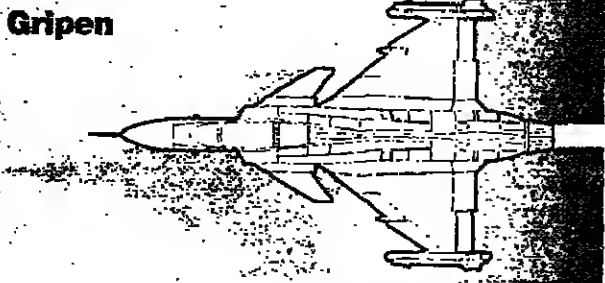
## BAe and Saab in fighter alliance

By Bernard Gray, Defence Correspondent in Paris

British Aerospace and Saab have agreed a joint venture on the international marketing of the Swedish JAS 39 Gripen fighter aircraft. The move allows BAe to offer a range of fighters from the Hawk light fighter-trainer through the Gripen single-engine medium fighter to the twin-engine Eurofighter at the top of the range.

The alliance also creates a powerful new grouping in the European combat aircraft market. Saab and BAe will work jointly on further development of the Gripen, increasing links between the two companies.

Gripen



Britain is likely to be the largest buyer of Eurofighters putting BAe in a leading role in the Eurofighter consortium, and the alliance with Saab expands its portfolio of aircraft. The range BAe can now offer puts it ahead of Dassault of France as Europe's most

powerful producer of combat aircraft. A study by the Teal Corporation, analysts of the aerospace market, published at the Paris air show predicts that the BAe-Saab group and Lockheed Martin of the US will dominate the international fighter market

beyond the year 2000.

"These two players should obtain a 40 per cent-plus market share in the next century," said Mr Richard Aboulafia of Teal. "The rest will go to the Dassault Rafale and the McDonnell Douglas F/A-18 Hornet and Russian designs."

BAe has already helped Saab with some critical technologies on the Gripen, including the computer flight control system and composite materials.

The two companies will work together on completing development of the Gripen, and BAe will make a number of modifications to ensure the aircraft is suitable for the export market.

The Gripen will compete with the Lockheed Martin F-16

Falcon, and is likely to be sold to countries which are looking for advanced fighters, but which cannot afford the Eurofighter. BAe will build 45 per cent of the Gripen for sales outside Sweden, with the Saab consortium building the remainder.

The deal also isolates the French group Dassault, whose new Rafale fighter is being bought in smaller numbers by the French government than the likely production run of the four-nation Eurofighter. As a result, export orders for the Rafale may be harder to achieve.

A grand alliance of all three European combat aircraft makers is possible, but is a long way off.

## Warning on air traffic doubling

By Michael Skapinker in Paris

A doubling of air traffic over the next 20 years threatens to overwhelm the world's airports and air traffic control systems, Mr David Hinson, administrator of the US Federal Aviation Administration, warned yesterday.

Mr Hinson said at the Paris air show that the number of people travelling by air annually was expected to rise from the 1bn now to 2bn by 2015, but that Europe and the more densely populated Asian centres would find it difficult to accommodate the increase. Four European airports - London's Heathrow, Frankfurt, Charles de Gaulle and Orly in Paris - were already among the busiest in the world.

Mr Hinson said worries about airports' ability to absorb more traffic was having an adverse impact on aircraft manufacturers' ability to sell their products. Allowing aircraft to navigate by satellite would help. More was required than "pouring new concrete," he said. "We must have ultra-reliable air traffic control systems that can move an ever-increasing number of passengers and aircraft safely to their destinations."

Mr Hinson said the US was prepared to provide airlines with access to its Global Positioning System (GPS), based on a network of 24 satellites. The system allows pilots travelling across oceans to determine their positions to within 100 metres.

Airlines will be permitted to use the system free of charge. The system, which costs \$400m a year to maintain, will be administered for airline purposes by the Montreal-based International Civil Aviation Organisation. It allows airlines to use routes with more favourable wind conditions, helping to cut journey times and creating savings on fuel.

Mr Hinson said airlines which used the system could reduce their fuel bills by hundreds of millions of dollars annually.

## WORLD TRADE NEWS DIGEST

## Arianespace to get new rocket

Arianespace, the European satellite-launching company, yesterday moved ahead with the next stage of its technical development by signing a FF112bn (\$2.36bn) contract with seven European suppliers for the new Ariane-5 rocket, but warned of the joint US-Russian challenge to its lead in commercial satellite launches.

Mr Charles Bigot, Arianespace's president, said the link between Lockheed-Martin of the US and Khrushchev of Russia, using a cheap dollar and Proton rockets, threatened to prove "hard and aggressive" competition to the European company in the future. Arianespace also yesterday announced a modest increase in turnover last year to FF14.6bn with profits down to FF140m.

David Buchan, Paris

## Airbus orders total \$1.5bn

Airbus Industrie, the European aircraft consortium, yesterday announced orders totalling an estimated \$1.5bn, trumping an earlier order announced by Boeing, its US rival. The Airbus orders were the first big deals for European companies at the nine-day Paris Air Show after Boeing claimed first blood in the fierce commercial war for orders on Sunday.

The four-nation Airbus grouping said Luftansa, the German carrier confirmed an order for 20 Airbus A319 jets, which seat 124, while Air Canada converted 10 options into firm orders for the same aircraft. The Air Canada order makes the airline the highest operator of Airbus in North America. It will have six A340 and 35 A319s in 1998, when the aircraft will have been delivered. Boeing on Sunday said it had \$664m of orders for its B737 small twinjet.

Rolls-Royce said it had won a contract worth \$75m to supply RB211-535 aircraft engines for five Boeing 737 aircraft ordered by United Parcel Service. Rolls-Royce already had a contract to provide engines for 35 UPS 757s, 16 of which have been delivered.

China Airlines and Eva Air, Taiwan's two largest international carriers, yesterday signed letters of intent with Boeing for the purchase of eight to 12 Boeing 777s. The deal follows President Lee Teng-hui's US visit.

Kyodo, Hong Kong

## GE wins power plant contract

General Electric of the US, with Italian and Saudi partners, has secured a \$1.3bn contract to build a power station outside Riyadh in Saudi Arabia. The plant, Riyadh 9, is the latest of a series being built by the Saudi Consolidated Electric Company.

At 1,300MW, Riyadh 9 is claimed to be the world's biggest crude-oil fired combined cycle plant. GE will provide gas and steam turbines and generators from its plants in the US. Its Italian partner, Belfini, will provide \$320m worth of boilers, condensers and construction work. The local partner, Saudi Binladin, will provide infrastructure.

Tony Jackson, New York

## Vietnam shoe exports halted

Measures by the Vietnamese authorities limiting shoe exports threaten the survival of foreign joint ventures in the industry, according to the Vietnam Investment Review. Shoe exports have ground to a halt as a result of a decision which prevents joint ventures that do not source 60 per cent of materials domestically from exporting their finished products.

The move will make it difficult for joint ventures with about 70 Vietnamese companies to continue operating. Most involve investors from Taiwan and South Korea, which import shoe parts for assembly in Vietnam. Last year 100m pairs of shoes were exported.

Our Correspondent, Hanoi

## UK may join Eurofighter missile venture

By Bernard Gray

Mr Roger Freeman, UK defence procurement minister, suggested at the Paris air show yesterday that a future missile to arm the four-nation Eurofighter and the Saab/Bae Gripen could be developed as a collaborative European programme, rather than bought in an international competition.

The UK has a requirement for a future medium-range air-to-air missile to arm the Eurofighter, and the government is expected to start a formal competition later in the year.

However, Mr Freeman indicated the UK might combine with other countries including Sweden, Germany, Italy and

Spain to develop a missile without competition.

"We have not yet made any decisions," Mr Freeman said, "but I am in favour of a collaborative development."

If the French Rafale aircraft were also included, the missile would have a base market of 1,100 fighters and an initial production run of 10,000-12,000 missiles.

The move might also offer a way to free the deadlock in negotiations between BAe and Matra of France over the merger of their missile businesses.

France has objected that the UK's open procurement policies allow US missiles into the UK while it is extremely difficult to sell European missiles into the US.

Mr Noel Forgeard, president of Matra Défense, said yesterday that "we respect the procurement policies of other countries, but we feel we have the right to point out that such policies have certain consequences".

The French government has been pressing for the UK to award a £750m contract for a long-range air-to-ground missile to the proposed BAe-Matra team to prove the UK's credentials. However, the British government has resisted the move and merger talks are stalled.

If the new missile contract were awarded to a consortium to be led by BAe and Matra, this might solve French concerns and allow the merger to proceed.

The potential market for such medium-range missiles to replace the highly successful AIM 120 missile is very large.

Yesterday Mr Forgeard acknowledged that Matra's MICA missile was unlikely to form the basis of a new fighter missile and that a completely new missile was required.

Yesterday, France said it had agreed with Germany to move to initial production of common missiles for their armed forces, the French DGA arms procurement office said at the air show.

The two countries had an outstanding agreement for missiles for use against both aircraft and supersonic and cruise missiles by their army, navy and air forces.

## Chile's patience wearing thin over Nafta

Nancy Dunne in Washington

Chile's long-held ambition to join the North American Free Trade Area hinges on the ability of the Clinton Administration to obtain "fast track" negotiating authority from Congress in the next nine months.

Chile has been the first in the queue among Latin American countries wanting to join Nafta and its patience seems to be wearing thin.

"If we don't have fast-track by early February, the whole process is probably doomed,"

said Mr Eduardo Aninat, Chilean finance minister. At that point the talks would get entangled with presidential politics for another year, and Chile is not willing to wait indefinitely.

Mr Aninat was in Washington last week after the launch in Toronto of formal talks for Chile's accession to Nafta. After meeting Congressional leaders, he pronounced himself "optimistic" about the outlook for fast-track.

Governments are loth to negotiate trade pacts with the US without fast-track, which

allows trade agreements to move through Congress without formal amendment. Chile is no exception, and it has other options.

It is already negotiating associate membership with the Mercosur free-trade area grouping Brazil, Argentina, Uruguay and Paraguay, and has held initial discussions for a protocol with the European Union.

The House trade sub-committee this month is expected to write the fast-track provision. However, Republican and Democratic members are still

debating the inclusion of labour and environment provisions such as those negotiated for Nafta.

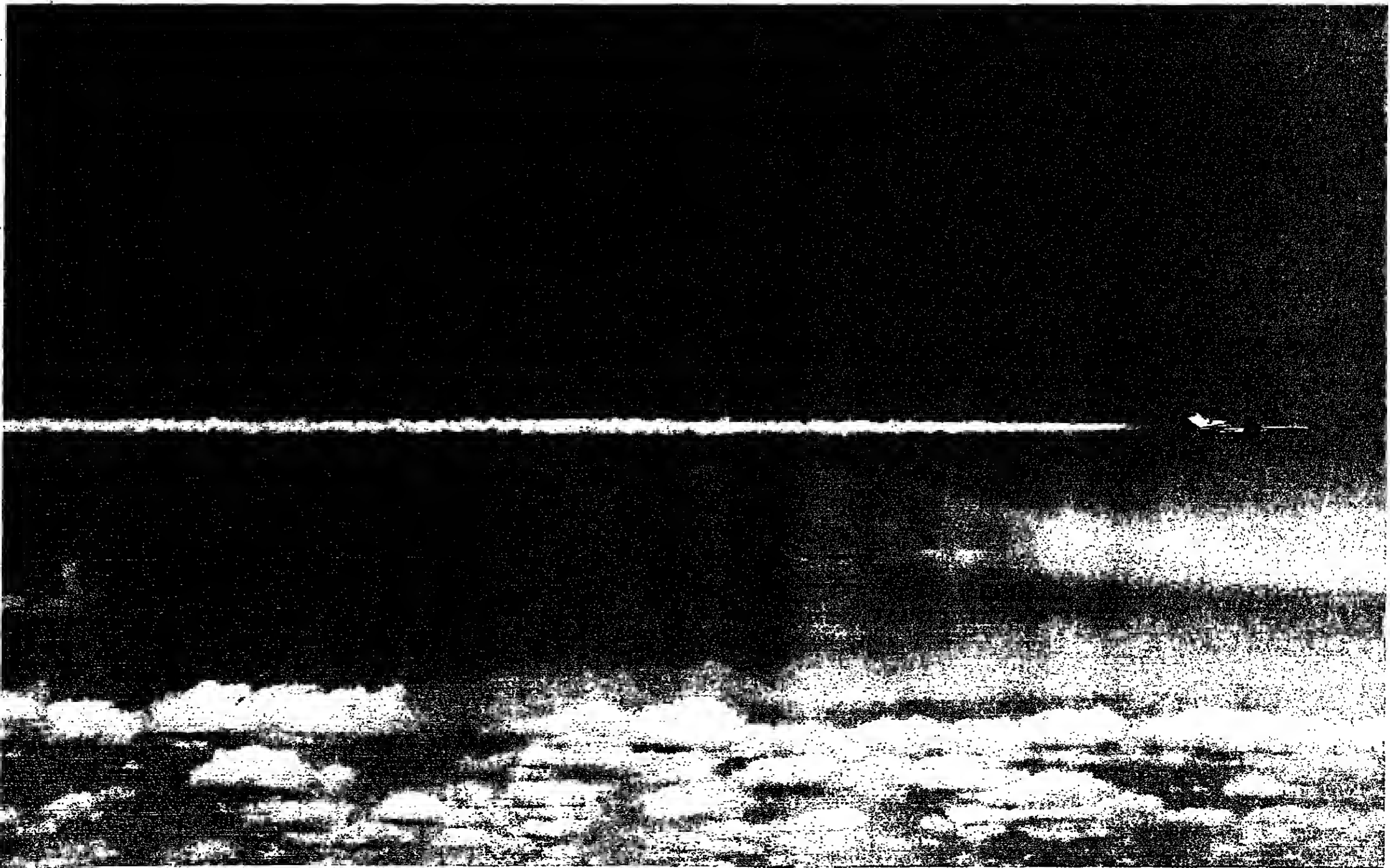
Republicans, urged on by business groups, are refusing to approve a fast-track which includes labour and environment. Mr Richard Gephardt, House minority leader, is calling for inclusion of labour and environment provisions even more stringent than those in Nafta.

One compromise would provide fast-track authority for the trade portions of the deal, but the labour and environ-

ment side parts would proceed through Congress without it.

Beyond the stalemate over environment and labour, it has not yet been decided whether Congress will consider a fast-track for an unlimited number of trade negotiations or for Nafta and the remaining parts of the Uruguay Round only.

In Toronto the trade ministers agreed to appoint lead negotiators this month to meet no later than the end of July. Initially they will establish a framework for tariff negotiations and deal with market access issues.



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## NEWS: ASIA-PACIFIC

# US, N Korea agree text of reactor pact

By John Burton in Seoul

US and North Korean negotiators agreed in Kuala Lumpur last night on the text of an accord letting South Korea provide light-water nuclear reactors to Pyongyang.

The agreement, still to be approved by each government, would represent a concession by North Korea, which had refused to accept South Korea-built reactors.

The row had threatened to unravel last October's US-North Korea nuclear accord, whereby two light-water reactors were promised to Pyongyang if it scrapped its suspected nuclear weapons programme.

Pyongyang had demanded the reactors come from the US or Europe; the US insisted South Korea be the main contractor, since Seoul is financing over half the \$4bn (\$2.5bn) project.

North Korea apparently agreed to accept the South Korean reactors after the US offered not to specify their country of origin in the contract to be signed between Pyongyang and the US-led organisation that will supervise the project. The explicit naming of South Korea as supplier would represent a loss of face for North Korea.

Officials in Seoul said the

reactor agreement would state that North Korea would accept the reactor model selected by the Korean Peninsula Energy Development Organisation (KEDO), which has already declared its support for the South Korean model.

South Korea initially demanded its role be clearly described in the reactor contract to prevent North Korea exploiting loopholes and barring Seoul from the project.

For the past seven months, North Korea successfully used the vague wording of the October nuclear accord to argue against acceptance of the South Korean reactors.

South Korea retreated on the reactor type being named in the contract after US officials assured Seoul the agreement's text would be explicit enough to guarantee South Korea would have the central role in the project. But it is still unclear whether all outstanding issues on the reactor project have been solved.

Pyongyang earlier demanded KEDO must also provide \$1bn in related facilities, including power transmission lines and training simulators, if it accepted the South Korean reactors.

North Korea dropped that demand last week, but the US agreed North Korea could discuss this issue later with KEDO.

## ASIA-PACIFIC NEWS DIGEST

## Confidence vote planned in Japan

Japan's largest opposition party yesterday submitted a no-confidence motion against the government, in protest at the ruling coalition's passage on Friday in its absence of a resolution determining the nature of an official apology to mark the 50th anniversary of the end of the second world war.

Mr Toshiki Kaifu, leader of the New Frontier party, said that judging from its handling of the Kobe earthquake and the war resolution, the government did not deserve the confidence of the house.

Traditionally, Diet resolutions in Japan have been adopted with the endorsement of all parties, except occasionally, the Communists. But the government was keen to get the war resolution adopted before Prime Minister Tomiichi Murayama went to the Group of Seven industrialised nations' summit on Thursday. Given the ruling coalition's strength in the lower house, the no-confidence motion is expected to fail when it faces a vote tomorrow.

Michiko Nakamoto, Tokyo

## Singapore's Lee blasts US media

Mr Lee Kuan Yew, Singapore's senior minister, yesterday blasted US publications he accused of trying to impose cultural supremacy, and vowed his nation would never become a client state of Washington. During evidence in his civil defamation case against the International Herald Tribune, he said of an article published last August: "I saw it as a very daring assault on my integrity, my standing and my honour." Mr Lee along with his son Mr Lee Hsien Loong, deputy prime minister, and Mr Goh Chok Tong, prime minister, are suing Mr Philip Bowring, who wrote the article. Mr John Vinocur, IHT executive editor, and Mr Richard McClean, its publisher, for defamation. The IHT published an apology over the article. At issue now is the amount of damages to be paid.

Reuters, Singapore

## SA shuns Indian Ocean plan

South African representatives yesterday declined to take part in any security-related discussions held by the International Forum on the Indian Ocean Region (Ifior) in Perth, insisting that intra-regional talks should concentrate on trade matters and avoid "divisive issues". They said South Africa would not support further intergovernmental talks on enhanced economic co-operation among Indian Ocean Rim countries unless these were broadened to include "hinterland" countries affected by Indian Ocean economics.

Nikki Tait, Sydney

Beijing seems unsure how to react to Washington's muted welcome for the Taiwanese leader

# China limits retaliation over Lee visit to US

By Tony Walker in Beijing

Chinese official anger over the visit to the US by President Lee Teng-hui of Taiwan appears to have calmed for the moment, but the episode has unsettled Sino-US relations and scope for misunderstanding has widened.

Beijing's acute sensitivity over the island, which it regards as a renegade province, risks further tension when the Republican-dominated US Congress seems intent on mounting a challenge to China on a range of issues - from Tibet to Taiwan itself. China's initial furious reaction may also have been tempered by the Clinton administration's conspicuous efforts to distance itself from the Taiwanese leader's presence in the US.

Mr Lee's visit, from which he returned yesterday, was the highest level mission by a Taiwanese official to the US since 1979 when Washington normalised relations with Beijing

and broke formal ties with Taiwan. While US officials in Beijing are adopting a sanguine approach to the issue, they are not discounting the possibility of further Chinese protest. "We are not sure when the other shoe might drop," said one.

Beijing's reaction has been restricted to largely symbolic gestures such as the cancellation of official visits to the US, including that of General Chi Haotian, the defence minister, and suspension of co-operation in arms control. Chinese officials have indicated that further measures are being considered, but will not be drawn on details. They have not ruled out economic reprisals.

China's "hot and cold" response since news broke of Mr Lee's trip to the US to attend a reunion at Cornell, his alma mater, has indicated uncertainty in the leadership about whether the granting of a visa to Mr Lee reflected a change of US policy.

Ms Anne Stevenson Yang of the US-China Business Council in Beijing said: "I think they are sort of puzzling it out - whether this is a plan or a policy, or whether it is simply the administration bumbling around."

Beijing may have concluded that its response, including strident newspaper commentaries, is enough for the time being to satisfy both domestic expectations and the need to convey strong disapproval to the US and others who may be thinking of opening the door to the Taiwanese leadership.

A senior European ambassador said Sino-US tensions were inevitable in what he described as a "switchback relationship". He also noted that Beijing was not anxious to see the row over Taiwan boil over. "Americans are blue chip and they like blue chip," he said.

China's media meanwhile reported approvingly President Bill Clinton's meeting at the White House last

Thursday with Mr Li Daoyu, the Chinese ambassador to Washington.

The official China Daily yesterday noted that Mr Clinton had reaffirmed US China policy that there was "one China", not "two Chinas", or "one China, one Taiwan". The paper also reported that Mr Li had urged Mr Clinton to "correct US mistakes" over Taiwan "so as to avoid further serious damage to Sino-US relations."

Chinese initial anger may have also been somewhat assuaged by President Lee's conduct in the US, and his conciliatory remarks on his return to Taiwan. The Taiwanese leader did not give a press conference in the US, did not travel to Washington, and did not receive congressmen who had sought a meeting.

In Taipei yesterday Mr Lee said: "It is necessary for us to take every occasion to create mutual trust and understanding with mainland China." "My visit was absolutely not intended to

create two Chinas. Taiwan must reunify," he added.

The Taiwanese leader avoided a sharp response to the insults heaped upon him by Beijing which had described him as a "liar" and a "prostitute". "Those people who truly understand the will of the Taiwanese people and the difficulties that Taiwan encounters in the international community should not make such sharp criticisms."

Our Foreign Staff adds: The US has postponed at least one high-level trade meeting with China as Washington's policy of comprehensive engagement with Beijing moves into a fragile period. A July visit planned by Mr Ron Brown, commerce secretary, has been delayed at least until the autumn.

A trip this month by Ms Charlene Barshefsky, assistant trade representative, is intended, however, to go ahead.

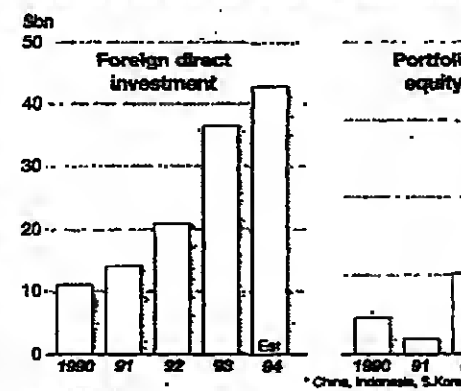
# Asian countries urged to reform capital markets

By Peter Montagnon, Asia Editor

Asian countries must accelerate reform of their domestic capital markets if they are to continue to absorb large inflows of foreign capital, particularly of portfolio investment and short term money, according to a study by the World Bank.

Private capital flows to the region have quadrupled so far this decade to an estimated \$82.5bn (\$51.6bn) a year and now dwarf official flows. Within the total, foreign direct investment accounted for \$42.7bn last year and portfolio investment \$39.8bn. The Bank thinks large private flows will continue. "High real growth rates make these markets highly attractive to investors in

Capital flows to developing east Asia\*



terms of risk-adjusted yields." Coping with the inflows poses a challenge for the governments concerned, the Bank

says. Not only can capital inflows bring inflationary pressure by boosting domestic liquidity. Short term money

can leave as quickly as it comes in, prompting a Mexican-style crisis.

Governments must protect themselves with sound domestic policies, the Bank says. "But this issue is not whether capital flows are good or bad. The challenge is to conduct both macro and micro policy to ensure that the additional resources provided by foreign capital inflows are used to best effect in promoting growth and development."

Sterilising the money supply impact of capital inflows by selling government securities has been tried by several countries. But this is not sustainable when the inflows are persistent, as it tends to keep interest rates high.

Thailand and Malaysia have run large current account defi-

cits to absorb inflows while maintaining high export levels, but this is only sustainable if accompanied by increased investment in productive capacity that adds to net exports in the medium term.

To facilitate proper allocation of resources, domestic capital markets must conform more to international norms, the Bank says.

A recurring weakness in Asian markets is the lack of a representative long-term bond rate against which investment returns can be priced. Most of the region's capital markets lack depth and liquidity.

But this is changing fast. Equity markets in South Korea, Thailand and Malaysia now rank within the top 20 in the world by capitalisation. "As they expand there will be

increased information requirements as well as the need for effective prudential regulation that minimises distortions."

Most East Asian countries have established the basic laws needed for capital markets, the Bank says. Enforcement has been inconsistent. Though Thailand's Securities and Exchange Commission has prosecuted market manipulators "quite vigorously" since its establishment in 1992.

Another impediment is slow settlement and delivery in securities markets. Turnover has grown rapidly in markets such as Singapore, China and Taiwan that have been computerised.

Managing Capital Flows in East Asia, by Yen Wang and John Shilling, World Bank, 1818 H Street NW, Washington DC 20433, US.

# Pakistan braced for tax rises in tough budget

Missed targets for deficit, inflation and growth put IMF deal in peril, writes Farhan Bokhari

After a year of disappointments on the economic front, many Pakistani analysts are bracing for a tough national budget tomorrow. Since the last budget most of the government's estimates on economic performance have proved far too optimistic.

Pakistan is ending the year with a deficit of more than 5.6 per cent of gross domestic product compared with a target of 4 per cent. On the growth front, the government concedes that the overall growth rate of gross domestic product would not exceed 4.7 - substantially below the target of 6.9 per cent.

Inflation, estimated on an annualised rate based on the first 10 months of the fiscal year, has risen to 14 per cent from 11 per cent two years ago, whereas the target was to bring it down to single digits.

All of which spells the need for a tough budget if the government is not to fall out publicly with the International Monetary Fund whose three-year \$1.5bn lending programme calls for much better figures than these.

To retain IMF approval, the government must achieve the deficit target while slashing tariffs. Lower tariffs would cut

customs revenue, creating a bigger budget hole to be filled. There appeared over the weekend to be some recognition of this: "We have no option but to levy fresh taxes

the crop failure. Business confidence has also suffered as a result of the continuing violence in the southern port city of Karachi, the heartland of corporate

## Business confidence has also suffered as a result of the violence in Karachi, heartland of corporate activity

to narrow the current budget deficit," Mr V.A. Jafarey, adviser on finance and the economy to Ms Benazir Bhutto, the prime minister, was quoted as saying to a Pakistani newspaper.

Part of the downturn has been the result of the large loss to this year's cotton crop, the third year in succession that the crop has failed. Cotton production has been hit by the leaf-curl virus and has fallen 18 per cent below its target of 9.5m bales.

Cotton and cotton products usually account for about 60 per cent of Pakistan's export income. The textile sector, which is the country's largest industrial sector, is preparing for its third consecutive year of losses because raw cotton prices have been forced up by

activity. Prices on the Karachi stock market have fallen by about a third since the beginning of the year amid escalating violence which has claimed more than 650 lives during that time.

Falling production in Karachi factories, hit by workers staying away for fear of the violence, has hit tax revenues.

President Farooq Leghari, in response to a question, explained the reasons for the setback: "Our economy has not been able to achieve the growth targets that were set, nor the inflation targets that were set. The main reasons for both were the difficulties in the agriculture sector."

He said he expected recovery in the agriculture sector to get the country back to its past growth performance of more than 6 per cent annually.

Still, Ms Bhutto's government claims credit for providing a new sense of "underlying stability" to the economy through improvements in the country's foreign exchange reserves and export performance. Reserves have exceeded \$2.6bn, the equivalent of 12 weeks of imports, up from \$250m two years ago.

The government also expects export income for the year which ends this month to rise by up to 17 per cent.

In addition, the government takes pride in its success in approving up to \$20bn in investments during the past year - as much as 10 times any previous annual figure, though critics warn that actual projects would be considerably less than that.

Mr Sartaj Aziz, a former finance minister and now an opposition senator, says: "The overall economic situation is particularly difficult. This is the third low-growth year in succession which means for the majority of the population incomes will fall."

Other critics charge that the government's policy of tight monetary management - under which commercial banks

are being forced to charge rates of around 21 per cent - may have improved the state of its finances, but has depressed the business environment.

Some officials are worried that the country will find it difficult to attract large-scale new investments which could help compensate for Pakistan's expenditure on unproductive areas. Almost two thirds of the country's budget goes on debt servicing and a large army to counter what its rulers see as the threat from India.

"We need new industrial investments at a fast pace so we can break out of our vicious circle of spending too much on defence and servicing our debt," one official says. "In the present difficult times, investors are going to be too eager to come."

## INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (ECU). The ECU exchange rate shows the number of national currency units per ECU. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES						JAPAN						GERMANY					
Exports	Imports	Trade balance	Current account	Service account	Effective exchange rate	Exports	Imports	Trade balance	Current account	Service account	Effective exchange rate	Exports	Imports	Trade balance	Current account	Service account	Effective exchange rate
1985	279.8	-174.2	-164.6	0.7823	100.0	230.8	76.0	84.5	180.50	100.0	100.0	242.7	33.3	22.6	2,220	100.0	100.0
1986	231.0	-140.5	-135.7	0.8836	81.4	211.1	66.2	87.1	165.11	127.7	127.7	248.5	63.4	41.3	2,179	100.0	100.0
1987	220.2	-131.8	-144.8	1.1541	71.9	197.3	66.1	75.5	166.58	138.9	138.9	254.3	58.7	40.0	2,070	114.9	114.9
1988	272.5	-100.2	-108.3	1.1893	67.0	218.8	80.7	67.0	151.51	133.7	133.7	272.9	61.6	41.9	2,079	114.9	114.9
1989	350.2	-89.3	-80.3	1.1017	70.0	245.3	70.5	53.4	151.87	147.0	147.0	310.2	55.4	22.0	2,067	113.3	113.3
1990	308.9	-73.3	-72.0	1.2745	66.7	220.0	50.1	28.5	183.94	132.5	132.5	324.4	51.8	38.5	2,053	117.1	117.1
1991	340.5	-59.5	-5.8	1.2381	65.7	247.4	83.1	62.4	166.44	143.7	143.7	327.4	51.3	15.6	2,040	118.1	118.1
1992	345.9	-65.2	0.8	1.2857	64.4	254.9	101.7	90.4	151.02	150.7	150.7	350.9	58.7	18.7	2,017	120.6	120.6
1993	397.3	-98.7	-68.9	1.1705	66.3	298.9	121.2	111.1	130.31	191.0	191.0	352.9	54.4	1.4	1,982	123.3	123.3
1994	432.3	-127.8	-131.4	1.1857	65.1	323.5	122.5	108.8	120.99	194.9	194.9	356.1	58.5	-17.4	1,918	125.6	125.6
2nd qtr.1994	107.8	-32.8	-32.5	1.1805	65.1	81.7	31.7	29.1	119.54	194.5	194.5	88.7	11.2	-0.3	1,927	124.8	124.8
3rd qtr.1994	106.5	-33.6	-33.4	1.2232	63.9	79.7	30.0	25.8	121.14	188.8	188.8	86.8	8.4	-10.5	1,908	127.0	127.0
4th qtr.1994	111.3	-32.1	-36.3	1.2342	63.3	91.1	28.5	24.4	122.03	197.9	197.9	95.7	11.3	-4.4	1,906	127.3	127.3
1st qtr.1995	111.0	-33.2	-36.3	1.2619	61.1	81.9	28.2	23.4	121.16	197.9	197.9	95.7	11.3	-4.4	1,906	127.3	127.3
May 1994	35.3	-11.1	n.a.	1.1622	96.1	26.9	9.8	8.3	120.67	198.8	198.8	30.2	3.0	-1.3	1,965	127.3	127.3
June	36.2	-11.0	n.a.	1.1808	65.5	27.6	10.8	9.9	121.06	194.5	194.5	30.5	3.8	-1.2	1,922	125.3	125.3
July	35.6	-12.2	n.a.	1.2187	63.9	28.5	10.8	9.9	120.00	199.9	199.9	29.0	2.2	-5.8	1,917	128.7	128.7
August	36.8	-10.5	n.a.	1.2196	64.1	28.7	9.8	8.1	121.85	198.9	198.9	30.5	4.0	-2.6	1,907	127.3	127.3
September	36.0	-10.8	n.a.	1.2312	63.3	28.6	9.9	8.4	121.58	198.6	198.6	29.4	2.2	-1.7	1,907	127.3	127.3
October	35.3	-11.0	n.a.	1.2544	62.8	26.7	9.4	7.2	123.44	197.1	197.1	31.3	3.5	-2.9	1,902	127.3	127.3
November	36.9	-11.4	n.a.	1.2588	63.0	27.5	10.2	8.5	121.21	199.1	199.1	31.9	4.8	0.8	1,904	127.3	127.3
December	39.2	-9.8	n.a.	1.2125	64.4	27.9	9.9	8.8	121.44	198.8	198.8	32.9	3.0	-2.1	1,904	127.3	127.3
January 1995	38.4	-12.9	n.a.	1.2374	64.0	26.8	9.7	8.8	123.32	198.1	198.1	30.2	3.0	-0.4	1,907	127.3	127.3
February	37.0	-10.7	n.a.	1.2455	63.3	28.7	9.8	8.4	122.27	198.1	198.1	32.0	3.7	-0.4	1,898	130.0	130.0
March	37.3	-9.7	n.a.	1.3029	61.1	27.4	9.7	7.2	117.89	198.1	198.1	32.0	3.7	-0.4	1,898	130.0	130.0
April	37.0	-9.7	n.a.	1.3279	59.0	28.0	8.9	9.2	111.24	198.1	198.1	32.0	3.7	-0.4	1,898	130.0	130.0



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## NEWS: UK

## Shipbuilding: Swan Hunter wins a reprieve only days before an auction of its assets Historic yard saved against all the odds

By Michael Cassell,  
Business Correspondent

Rescue could not have come a day later. At Swan Hunter's Wallsend yard on Tyneside, where news of its purchase by UK-based THG Group was announced yesterday, lot numbers were being attached to furniture and equipment in readiness for an auction next week that would have ended 135 years of history.

"Today really was the deadline for us to be able to cancel the auction plans," said Mr Ed James, Swan Hunter's joint receiver. Up to 2,000 buyers were expected to attend the sale, the first due to arrive on Friday.

Against all the odds, THG put in its successful bid on June 1 and contracts were exchanged yesterday. The yard that was apparently destined to close, another all-too-familiar symbol of the region's industrial decline, has won a new lease on life.

In November 1994, as HMS Richmond slipped down the Tyne - the last of 2,700 vessels to emerge from Swan Hunter's yards - those who could bear to watch sang *Auld Lang Syne* accompanied by the company's brass band. Last night, locals were drinking to a deal they hope will bring badly needed jobs to Wallsend and which represents a triumphant end to an exhaustive, two-year campaign to keep the yard alive.

Swan Hunter, owner of the last shipbuilding facility in the north-east, went into receivership in May 1993 when orders finally ran out, leaving 2,400

people to face the dole in a region with the highest unemployment on the British mainland.

Last October the company's Neptune yard was sold to A&P Appledore to be used for ship refitting, while the Hebburn yard with its large dry dock went to Tees Dockland. But the search to find a buyer for Wallsend as an operational unit was less successful and even an international marketing campaign - which drew initial interest from Japan and Malaysia - came to nothing.

One of the main drawbacks to concluding a sale has been the huge potential redundancy liabilities facing any buyer: several looked and were frightened off. Ironically, hopes of a sale rose as the number of workers within the yard was steadily reduced. In recent weeks it has fallen to around 30, most security and maintenance personnel.

By April, receivers Price Waterhouse were acknowledging that a sale looked highly unlikely and that a piecemeal sale of assets appeared unavoidable. The Wallsend facility, however, was still attracting the interest of THG Group, which first made a bid towards the end of 1994. Its offer, details of which were not made known, was rejected by the receivers as unrealistically low.

THG already has a substantial presence in north-east England with two fabrication yards at Hartlepool employing about 500 people servicing the offshore oil and gas industries. Behind the decision to



Born again: Michael Peat, who lost his job at Swan Hunter two years ago, shows grandson James Walsh what may still be the future

acquire the Wallsend facility is the company's wish to establish a presence in the market for floating oil production platforms, the demand for which is set to expand as attention moves to exploiting the more marginal offshore fields.

It is expected that the vessels will be constructed at Wallsend and fitted out with equipment manufactured at the company's Hartlepool facility.

Such has been the rush to complete the deal with the receivers that the yard's new owners were yesterday

providing minimal details about their plans for Wallsend. They were unable to say how many jobs would be created or to estimate the total costs of the project.

The company has made clear, however, that its proposals will entail heavy capital investment and that it expects to win substantial financial help in the shape of regional selective assistance grants.

The Tyne and Wear Development Corporation, which has worked closely with the new owners to prepare a business plan and which has advised

them on making a formal application for grant assistance, has also pledged £500,000 towards the project.

News of the last-minute deal was welcomed in Whitehall, as well as locally.

The DTI said that although THG had not formally applied for grant aid, any application would be considered on its merits. There was little doubt last night that funds would be forthcoming, though the extent of any government help is yet to be negotiated.

Campaigners who have fought to keep shipbuilding alive on Tyneside were

ecstatic. "We welcome THG with open arms," said Mr Eddie Dark, Swan Hunter's union campaign co-ordinator.

He said Tyneside hoped the sale would bring prosperity and jobs back to Wallsend and congratulated THG on recognising a business opportunity which had been "so sadly missed by the government".

Last night, meanwhile, staff at Price Waterhouse were stepping up their efforts to ensure that potential buyers heading for Wallsend did not waste their time making the journey.

## Appeal Court bans series of miners' strikes

By Robert Taylor,  
Employment Editor

The Court of Appeal yesterday banned a series of 24-hour strikes by members of the National Union of Mineworkers at RJB Mining, which owns most of the UK's coal pits.

The ruling - a further humiliation for Mr Arthur Scargill, the NUM president - upheld a High Court injunction granted to the company on Friday. The Court of Appeal also refused the NUM leave to appeal to the House of Lords against its unanimous judgment, and awarded costs against the union.

The law requires that industrial action must start within four weeks of the union winning a mandate for action in a ballot. The NUM announced the result of its ballot on Tuesday May 16. The first of the 24-hour strikes was due to begin at midnight last night.

The company argued that the strike was unlawful because it was due to start after the four weeks ran out. The NUM maintained that midnight was not only the end of today but also the beginning of tomorrow and therefore the union could call out its members on tomorrow's shift.

Lord Justice Henry said the NUM argument was "ingenious" but had to be turned down "for the simple reason that, while time may be seamless, days do not overlap".

Lady Justice Butler-Sloss said "No part of a day can be both Monday and Tuesday, otherwise we shall be in cloud cuckoo land."

Mr Scargill said the judgment was "not only viciously anti-union but illogical". The ruling "not only stands the law on its head but rewrites the calendar and is by any test completely unreasonable".

Mr Scargill said the issue would be referred to his union's annual conference in Blackpool on July 1, where the NUM executive would call on delegates to back a second ballot for industrial action.

The union wants a substan-

Labour yesterday stepped up attempts to signal to the business community that both sides of industry will be consulted on crucial policy issues if the party wins the next general election, Kevin Brown writes.

Mr Tony Blair, the party leader, told the AEEU engineering union in Blackpool that senior shadow ministers will undertake a "bunge programme of consultation" with managers and workers in every part of the country.

Mr Blair said the exercise would be "as big and, in my view, as important" as the soundings that preceded the party's abolition of the Clause 4 commitment to mass nationalisation in April.

An aide said: "This is intended to reassure business that when we are formulating policy we will be consulting both sides of industry, and not just listening to trade union officials."

A rolling roadshow, modelled on Mr Blair's successful tour of Labour branches to promote the redrafting of Clause 4, will visit local chambers of commerce and regional business groups.

The Labour team will explain policies on key issues such as investment and competition and set out the party's detailed minimum wage proposals and its acceptance of the social chapter of the European Union's Maastricht treaty.

tial basic pay rise for its members at RJB Mining, claiming that the company wants to maintain a three-year wage freeze. The company denies this.

Mr Bill Rowell, the company's director of mining, said: "We have clearly stated that provided the productivity improvements and cost reductions achieved so far this year are maintained, there will be an increase in basic wages at the year-end. We have said this increase will be no less than the rate of inflation."

## Cheaper floating oil platforms gain popularity

By Robert Corzine

The market for floating oil production platforms is expected to expand quickly over the next few years.

A recent survey by Wood MacKenzie, the Edinburgh-based consultancy, predicts a sharp rise in their use in the North Sea, as well as in the new oil area west of the Shetland and Orkney Islands.

Fifteen of the 64 new UK offshore fields expected to be developed in the

short to medium term are likely to use some form of floating production system, according to the consultants. That compares with nine identified in a similar survey last year.

The popularity of floating systems has increased as a result of technical innovations and cost factors. Many are based on converting ships such as supertankers. Industry executives say cost savings over conventional fixed platforms can amount to 40 per cent.

Another advantage of floating

systems is that they can be moved easily once a field has been depleted, avoiding the costly abandonment process of fixed platforms.

The UK offshore fabrication industry has failed to win any new-build or conversion orders for floating systems. Most conversions have gone to Spanish yards, while new ones have generally been built in Asia.

Floating production units are particularly useful in the many small North Sea fields that would be uneco-

nomically with a fixed platform. But Ms Kate Jackson, an analyst with Wood MacKenzie, said they were increasingly being used for much larger reservoirs, as well as for those in deep water. The initial phase of British Petroleum's Foinaven field, the first commercial development west of Shetland, will be developed by a floating system.

The Gryphon, operated by Kerr-McGee 200 miles north-east of Aberdeen, is a typical platform. A turret at

the centre of the vessel is secured to the seabed by 10 anchors, each weighing 35 tonnes. The vessel, which has five thrusters mounted along its hull, is able to rotate around the turret so that it is always lying head to the wind.

A computer which receives navigational data from automatic electronic identification systems - "transponders" - on the seabed and satellite transmissions, helps keep it precisely on station.

### IN STRICT CONFIDENCE

Letters of interest are invited for

### ON-SHORE DISMANTLING OF BRENT SPAR OIL STORAGE PLATFORM

Greenpeace believes that the cost estimates used by Shell UK to justify off-shore disposal of Brent Spar are not commercially competitive. They have not been made public.

Greenpeace is inviting commercially competitive tenders for on-shore dismantling of Brent Spar in order to expose these costs.

Greenpeace believes that once these costs are made public, Shell's justification for off-shore disposal will collapse.

Once the sea-disposal route is closed, installations will be dismantled on land. Some 400 other off-shore installations will become available for dismantling over the next few decades.

The advantages to the on-shore industries of this possibility are obvious.

For full details of the "Scope of work" required to fulfil the tender, please apply as soon as possible in strict confidence to Greenpeace, Deutsche Sektion e V, Rambachstr. 1, 20459 Hamburg.

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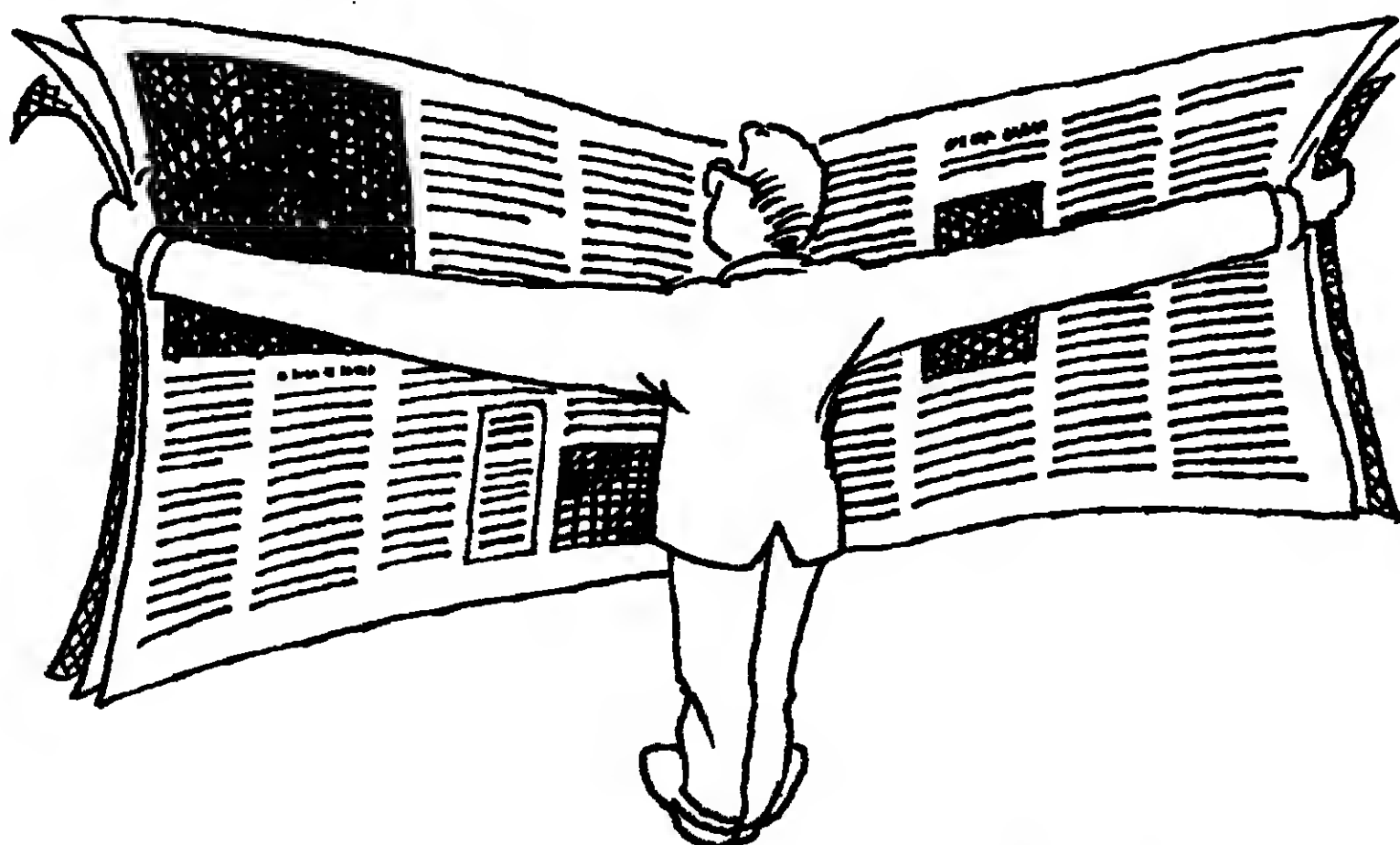
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## NEWS: UK

# Factory-gate inflation at four-year high

By Robert Gholson,  
Economics Correspondent

Industry's fuel and raw material costs recorded their smallest increase for seven months in April, but the underlying rate of factory-gate inflation reached its highest rate for nearly four years as manufacturers passed earlier cost increases on to their customers by raising prices.

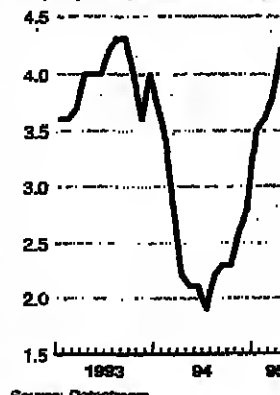
Input prices - fuel and raw material costs - went up 0.2 per cent last month, after adjusting for the small increase which is typical for the time of year, according to the Central Statistical Office. This was the smallest rise since October and much weaker than the 1.5 per cent increase seen in the same month a year earlier.

Input prices climbed 10 per cent in the year to May, a slight fall from the peak 12.1 per cent increase seen in the year to January. The pace of increase has slackened in part because commodity markets have been relatively stable.

Fuel and crude oil prices increased more than accounted for the total rise in input prices between April and May, with prices for metals and chemicals rising less significantly

## Manufacturing

Output prices, annual % change



Source: Datastream

and materials used in food manufacturing becoming cheaper. Fuel costs are lower now than they were a year ago.

Past input price increases continued to put pressure on manufacturers' profit margins, putting them under greater pressure to raise the prices they charge for their finished products. Manufacturers lifted their prices by 0.2 per cent in May, 4.2 per cent higher than a year earlier.

Excluding the food, drink, tobacco and petrol industries, manufacturers raised their

## Overseas investment growth leads the world

British investment in overseas projects grew by a fifth last year, figures from the Bank for International Settlements yesterday showed, writes Gillian Tett in Basel.

This rate of growth, faster than any other large industrialised country, left the UK the second largest overseas investor in the world.

Although domestic investment is barely higher than 1992 levels, the amount of money British companies have invested in overseas projects has doubled in the last three years.

The figures in the latest annual report from the Basel-based BIS are likely to deepen the debate about the willingness of British companies to engage in long-term capital projects - and, in particular, the degree to which the UK is now viewed as an attractive investment site.

Although the UK corporate sector has been cash rich in recent months, domestic investment has been relatively slow to rise in this business cycle. Some economists have suggested that part of the reason for this lies in the degree to which UK companies are investing overseas.

The BIS said yesterday that UK overseas direct investment was estimated to be \$30bn (£19.1bn) last year, up from \$25.7bn in 1993. About half of these flows were reinvested earnings. The BIS's figures will be followed by official data from the Central Statistical Office later this year.

The level of UK investment was about half that of the US, the world's largest overseas investor, but considerably higher than Japan, which was a larger overseas investor than Britain between 1986 and 1991.

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# Mirror joins cable race with Live TV

Live TV, Mirror Group's £80m television venture, yesterday became the third significant channel aimed at the cable market to launch in just over six months.

Described as "Britain's first national live cable exclusive channel", it went live at 8pm to 90 per cent of the UK's 900,000 cable homes.

Live TV, created by Ms Janet Street-Porter, a former BBC senior executive, aims to provide "a quality mix of celebrity-led entertainment, lifestyle features and information, together with coverage of people-stories, calendar events and news".

Mr David Montgomery, Mirror Group chief executive, said: "We have proved that this sort of television is possible." He added that programmes produced by the 200 staff would cost less than £2,000 an hour to make.

The £80m budget is designed to take Live TV, which like the Daily Mirror is based at Canary Wharf in London Docklands, to break even in three years. The new channels have been created largely because of the desire of a number of newspaper groups to enter the television business, and the need for cable operators to have extra channels that are different from satellite broadcasters.

It is believed that Live TV will get about 20p a month for each cable subscriber and this will amount to 80 per cent of revenues, with the rest made up by advertising.

Mr Montgomery said, "Thirty national brands will be advertising this month." But the real question is how many of them will be advertising after the initial launch period.

Mr Montgomery insisted that whatever happens to audiences, "we know what the costs will be and it is not something that can get out of control".

The group plans to launch a Birmingham Live TV, in co-operation with Midland Independent Newspapers, owners of The Birmingham Post and Mail.

per cent in cable and satellite homes, giving Channel One a weekly audience of about 75,000.

There are plans to launch a new Channel One in the Bath, Bristol, area and talks are under way for another on the Bradford Leeds cable networks.

SelectTV, the most modest of the three channels in terms of start-up costs, launched on June 1. The heart of the channel is 15-300 hours from the library of SelectTV, the independent producer responsible for programmes such as Birds of a Feather, Lovejoy and Love Hurts.

SelectTV, which is believed to be getting around 20p per cable subscriber a month, said initial response from cable operators had been good.

Raymond Snoddy

# Brave companies that claim their systems work

A rare public debate on internal controls has gained fresh urgency following the Barings debacle

The directors of Guinness, the distiller and brewer, deserve a prize for their annual report and accounts. There is wide-spread disagreement, however, over whether it should be for stupidity or bravery.

Their report for the year ending December 1994 contains a statement on the company's internal controls. A seemingly innocuous line tells shareholders that the directors "are satisfied that the group continues to have an effective system of internal controls".

The brewer is one of a handful of companies which this year have gone as far as saying in their report and accounts that their internal controls actually work. Hundreds of other companies have instead made blander statements - often on the advice of their auditors. Such caution reflects

the lessons provided by companies like Barings, the UK merchant bank apparently brought down by a spectacular failure of control.

The issue comes to a head today when the Auditing Practices Board hosts a rare public debate on the issue. More than 100 interested parties are expected to join the forum at the Institute of Chartered Accountants in England and Wales (ICAEW) at their central London offices.

The controversy over internal controls began with the Cadbury Report of 1992, which recommended that "directors should make a statement in the report and accounts on the effectiveness of their system of internal control and... the auditors should report thereon". Putting that wish into action has proved

extraordinarily difficult. A special working party eventually produced guidance for directors last December, after a controversial first draft, on what they should do about reporting on internal controls. It stopped short of telling directors to give an opinion on whether their controls worked, but it added that they "may also wish to state their opinion on the effectiveness of their system of internal financial controls". Many saw this as thinly veiled encouragement.

Guinness, and a few others, decided to follow it.

This has not pleased the big audit firms. If a group of directors expresses an opinion on internal controls auditors will, inevitably, face pressure to report on that opinion. As a result, the leading audit firms have been advising their clients

not to include a director's opinion.

While the big firms may be privately relaxed about such statements from directors of FT-SE 100 companies, which have sophisticated internal control systems, many auditors suspect that smaller listed companies may often hide significant deficiencies in their systems.

Mr Ian Plaistowe, chairman of the APB, hopes that today's debate, and a discussion document published in April, will bring into the open problems which he believes make such statements potentially dangerous. Auditors do not want shareholders to expect too much from what they believe are often loosely worded assurances.

Mr Plaistowe believes the debate could lead to alternative ways of reporting on internal controls. "The key issue is helping companies manage their risks and devising ways in which these can be reported to shareholders in a cost-efficient and meaningful way," he said.

Mr Gerry Acher, head of the audit faculty at the ICAEW, said: "To leap to a conclusion about the effectiveness of controls - let alone their future effectiveness - is not only naive but also damaging."

Auditors, he said, welcomed more guarded statements from their clients, like that from GrandMet, which says: "The group has an established system of internal control which the directors believe to be appropriate to the business."

Others believe that the spirit of Cadbury's recommendations should be put into force and

that auditors are attempting to avoid their responsibilities. One leading accountant referred to the debate as a "smokescreen" to hide the real fear behind opposition to such statements - that auditors and directors might face legal action if internal controls fail.

Critics see the fear of litigation, which already haunts the audit profession, as driving much of the debate. The last thing the big audit firms want, in addition to the claims they already face over past corporate failures, is to be further exposed to such action in the future.

Others see straightforward statements on internal controls as vital for the continued health of corporate governance.

Jim Kelly

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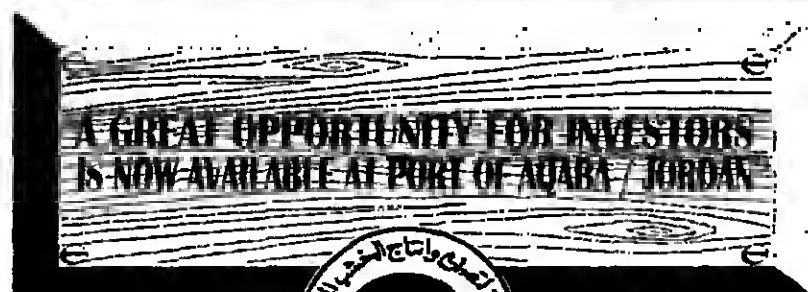
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## TECHNOLOGY

## Measure of female fertility

Nishimoto, a small Japanese machinery maker, claims to have friends where it counts - in the Vatican.

The company, based in Mie in central Japan, makes high-technology thermometers, which analyse a woman's temperature to predict her fertile status.

Kinji Nishimoto, Nishimoto's president, has forged ties with Vatican officials and has presented his product, L Sophia, to the Pope. First contact was made between the two at the Natural Family Planning summit in 1992.

Nishimoto started to develop a computerised thermometer in 1980 after requests from Japanese gynaecologists with patients suffering from infertility. Following the completion of his first model 10 years later, Nishimoto was introduced to a Catholic priest who recommended the product to the Vatican.

The thermometer - the size of a portable compact disc player - holds up to six months of data and predicts elevated levels of progesterone, ovulation and menstruation periods by analysing temperatures, thus predicting infertile and fertile periods. It frees the user from the daily chore of taking down her temperature on a graph by hand, and instead with a push of a button, a chart will appear on the liquid crystal display. Weighing 280g, the thermometer is portable.

While leading medical machinery makers, such as Omron, hold substantial market share in the domestic market for electronic thermometers, Nishimoto claims it is the country's first product with a computerised memory.

The product can be plugged into personal computers, and the company has eight patents on the machine.

One problem with the first model was its relatively high price of ¥32,000 (£235). After efforts to miniaturise the product and reduce the number of parts, Nishimoto produced a second model selling at ¥10,800.

Emiko Terazono

At US biotechnology company Millennium Pharmaceuticals in Cambridge, Massachusetts, a white-coated technician leans over a computer terminal which is searching for DNA sequence matches. It will take about two days for the computer to reassemble the DNA, compared with about six months if the task was done manually.

The tremendous acceleration in research time explains why computers are knee-deep at Millennium - nearly two terminals for every employee - and why they are being used so eagerly by the biotechnology industry in general.

Computers and biotechnology have joined hands and their marriage has given birth to a new field known as "bioinformatics", which many believe will be as important a development in drug discovery as the advent of biotechnology.

Drug companies are now rushing headlong into bioinformatics. Just one supplier, Perkin-Elmer, has sold \$400m (£270m) of computer equipment to the biotechnology and pharmaceutical industries over the past 12 months.

Some groups have already produced strong product candidates with the new technology. BioNumerik Pharmaceutical, of San Antonio, is currently testing an anti-cancer drug it developed using supercomputers. Agouron has developed anti-cancer and AIDS treatment candidates based on computer research, and Arris Pharmaceuticals is working on an asthma drug it developed using bioinformatics techniques.

It may soon be possible to conduct nearly all pharmaceutical research (before animal and human testing) through a computer. This would replace the tedious trial and error process of traditional drug discovery. Pharmaceutical companies in the past would screen thousands of compounds in the hope of finding something that had an effect on a disease. Sometimes it worked; usually it did not. And even when a drug attacked an illness, it often caused so many side effects that the treatment was rendered useless.

"Experiments in the future will start and end at the computer terminal," predicts William Haseltine, chief executive of Human Genome Sciences, which is at the cutting edge of bioinformatics.

Critics point out that no drug whose discovery was largely based on computer work has yet come to market. Yet that may testify to the newness, rather than the efficiency or otherwise, of the technology.

"In seven or eight years, it is inconceivable that any significant number of drugs will come on stream that have not in some way been affected by bioinformatics technology," says Stephen Evans-Freke, chief executive officer of



Automated genetic sequencers for DNA analysis at work. "Experiments will start and end at the terminal," says one proponent.

## Hand in hand

The partnership of biotechnology and computers may change the face of research, writes Victoria Griffith

Sugen, a California biotechnology company.

Driving bioinformatics is the creation in recent years of vast genetic libraries. At the last count, the DNA sequences of some 100,000 human genes had been documented. The flood of information means that scientists can no longer conduct experiments with the information in their heads and a few notebooks. To take advantage of the new body of information, they need the rapid access to extensive amounts of data that only a computer can provide.

The break-down of life-forms into minute genetic formulae has turned drug discovery into a mathematical challenge. "Biology is now taking an equation, introducing a variable and predicting what will happen," says Haseltine. "And computers are good at mathematical relationships."

Scientists say the old rules of drug discovery have changed. Computers, they believe, can narrow the field to the extent that just a few dozen compounds are identified as likely to have an impact on the disease.

A cure for stomach cancer might be found in the following way: scientists would collect samples of stomach tissue from healthy and ill mice. The samples would be compared, via computer, to discover a

gene mutant that might be responsible for the disease.

The scientist would then search for a match in the library of human genes, and the researcher would use a previously identified DNA sequence of the gene to predict the protein it would eventually build. This is what scientists refer to as the "target". They would screen only the compounds likely to have an impact on that particular protein. If the process went without a hitch, the scientist would soon be shouting "Eureka!"

Of course, weak links in the chain mean that the discovery process, even with the aid of computers, does not happen that smoothly. For one thing, not all genes have been mapped out, so the scientist may not find a good match to begin with.

Another problem is that although DNA sequencing indicates the basic components of the gene, it does not predict protein shape.

Some headway is being made in predicting the structure of proteins through computers, however. This month George Rose, a professor at the Johns Hopkins medical school in Baltimore, presented a new computer program, called Linus, to forecast the structure of proteins. Currently, Linus predicts the form of simple proteins only, but Rose believes that the program will even-

tually become more sophisticated.

Innovations such as Linus, as well as other factors, should fuel the use of bioinformatics in drug discovery during the next few years. The cost of computer technology is rapidly falling, allowing more companies to use the new techniques. Public gene libraries are also becoming more prolific, meaning that companies will be able to take increasing advantage of DNA sequences in the public domain.

Laboratory technicians may not be able to throw in their white coats yet. "It will be a long time before we are able to do everything on the computer," says Timothy Clark, associate director of bioinformatics at Millennium. "In the meantime, we'll see interplay between traditional chemistry and the computer terminal."

In spite of its limitations, the burgeoning use of computer technology seems set to have a profound and long-lasting impact on the pharmaceutical and biotechnology industries. "It is when two major technologies are joined together that you get big leaps forward," says Kenneth Lee, a biotechnology analyst at Ernst & Young. "That's what's happening as computers join with biotechnology - you get this exciting new burst of activity."

## Technically Speaking

## Canny scientist's pragmatism

By John Mulvey

Yesterday's appointment of Robert May as the chief government's scientific adviser prompts an appreciation of his predecessor, Bill Stewart. More properly known as Professor Sir William Stewart, this well-rounded and truly canny Scot with a love for his native Islay island home, has been chief scientist for the last five years.

As the country's scientist in the position of greatest influence on science and technology policy, how has he fared?

With experience of being a practising scientist, he was always sensitive to the needs of scientists and engineers stretching to grasp the opportunities to advance knowledge - opportunities quickly seized by better-funded colleagues in other countries. But, as a pragmatist, he was equally aware of the imperatives of operating within a political culture that demands value to be readily measurable in terms of financial return. Balancing these largely irreconcilable long and short-term views of the purposes of the research base must have been a source of some anguish.

The surprise formation of the Office of Science and Technology after the 1992 election made the chief scientific adviser head of an office responsible both for the research councils (formerly within the Department of Education and Science) and for co-ordinating government-wide science and technology policy.

But a scientist in Whitehall is an outsider and, faced with fiercely defended departmental interests, has little hope of being effective unless his political masters have the will as well as the wish that he should succeed.

The start was not auspicious: the Department of Trade and Industry tried to carve a big slice out of the OST science budget. Although unsuccessful then, the DTI later achieved much of its aim by the back-door, reducing its support for research, and driving more scientists to seek grants from the Research Councils. As all departments have reduced

research funding, claims on the modest OST funds have increased.

Stewart turned his enthusiasm and energy to driving the Technology Foresight exercise, which has brought hundreds of scientists and engineers from universities, government and industry together to speculate on the likely directions of scientific and technological advance, and to identify those areas that may have important marketable applications. He will not be there to see how this develops, but its success depends on how far industry invests in the opportunities.

The OST will try to "create wealth" by describing too narrowly the programmes for the research base, which has the prime purpose of advancing knowledge and creating scientists and engineers well-trained in research.

Stewart has earned the warm respect of the scientific community for the way he brought science and technology issues into the centre of government, an unusually difficult mission. As a scientist with a distinguished record of achievement, there was never a question of his devotion to achieving a healthy and vigorous research base. He has displayed a balanced view of research from the "blue skies" end of the spectrum to the most applied - an attribute crucial to someone in that position but not so common these days, when success often demands high-pressure dedication to a narrow specialisation.

Stewart has gone and we welcome Robert May. Also a distinguished scientist, his career has moved from theoretical physics to population biology, in which he has achieved world renown. But with the research councils now firmly in the domain of their director general, John Cadogan, what is left for the chief scientist unless it is to help forge a coherent government-wide policy? May will need effective backing from the prime minister if he is to succeed.

John Mulvey is executive secretary of Save British Science, a research lobby group.

## BUSINESSES FOR SALE



THE MINISTRY OF PRIVATISATION OF THE REPUBLIC OF POLAND

INVITES TO NEGOTIATE the purchase of the shares of FABRYKA OKLADZIN CIERNYCH Spółka Akcyjna with the seat in Marki near Warsaw ("FOMAR" S.A.)

The Minister of Privatisation, acting on behalf of the State Treasury of the Republic of Poland, pursuant to Article 23 of the Act on Privatisation of State-Owned Enterprises of July 13, 1990 (Journal of Laws No. 51, item 298, with subsequent amendments) invites all interested parties to negotiate the purchase of a package constituting at least 10% of the share capital of the Company "FOMAR" S.A.

Pursuant to Article 24 of the Act on Privatisation of State-Owned Enterprises, the Minister of Privatisation will offer on preferential terms up to 20% of the shares of the Company to the staff employed in the state-owned Fabryka Okładzin Ciemnych in Marki on the day of transformation of the enterprise into the Company.

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tel: (48 2) 621 41 67 Fax: (48 2) 625 45 26  
Aut: Krzysztof Grudziński  
Marcin Cieplinski

The Information Memorandum will be made available (sent) to the interested parties upon receipt of a signed confidentiality agreement.

The initial offers for the purchase of the shares of the Company should be submitted to Business Analysts & Advisers Ltd Sp. z o.o. (to the above address) by July 11, 1995.

The Minister of Privatisation reserves the right to deem the offer null and void and to renounce negotiations with no expressed reason.

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NOTICE IS HEREBY GIVEN pursuant to Section 94 of the Insolvency Act 1986 that a meeting of the creditors of the above named companies will be held at Kings House, 302 King Street, London EC2V 8HT on the 30 June 1995 at 10.30 am and then at 12 noon on the business day prior to the meeting. A statement of claim must be lodged.

NOTICE IS ALSO given that, for the purpose of settling, secured creditors must (unless they "reserve their security") lodge a statement proving particulars of their security, the date when it was given, and the value at which they estimate it. A list of the names and addresses of the creditors of the above named company may be inspected at the offices of Ernst & Young, Beckett House, 1 Lambeth Palace Road, London SE1 7EU between the hours of 10.00 am and 4.00 pm on the two business days preceding the meeting.

Dated: 9 June 1995  
In and on behalf of:  
DCNB Corporate Director Limited  
a Director of Unit Trust Advisory Services Limited  
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(1) (Insert date: Administration order made under Sections 75(1) and 14(2) in appointing Scott Barnes in place of Alan Griffiths (deceased) on 19 May 1995.  
Maurice Charles, Withall (2050) & Scott Barnes (2023)  
Joint Administrators: office holder (14)

## INTERNATIONAL PEOPLE

## Tanskanen to chair Okobank

Antti Tanskanen, president of Academy of Finland, will become chairman of the executive boards of OKOBANK Osuuspankki Keskuksankki and the Central Association of the Finnish Cooperative Banks, and chief executive of the OKOBANK Group in January 1997. The present chairman, Pauli Komi, retires at the end of 1996.

Udo Engström, a former deputy prime minister of Sweden, as a non-executive director of Millicom International Cellular, which has cellular telephone interests in 19 countries.

Peter K. Hoffman, 46, currently group general manager, Braun North America, as senior vice president, business management, for The Gillette Company's North Atlantic Group from October. He succeeds Robert P. Hanafan, Jr., who becomes president of Gillette's stationery products group.

Udo Stark, 47, chairman of German industrial group AGIV, joins BICC, UK cables and construction company, as a non-executive director.

Sir Charles Powell, former foreign affairs adviser to the British prime minister, as a director of Jardine Strategic Holdings.

Hartmut Ostrowski, 37, takes over as management chairman at Berleinsmann Distribution in July. Dr Hans-Joachim Herzog, 41, becomes deputy chairman, and will also be responsible for the media division. Rainer Gerdes, 52, will be managing director of the direct marketing division.

R. Michael O'Brien, previously managing director and chief financial officer, to president of GMAC Mortgage Corporation's retail mortgage operation.

Philippe Le Goff, 44, who joined Sanofi's research division in Paris in 1981, succeeds B.G. Crouch as president and chief executive of Sanofi Inc. Crouch, who held the post since 1983, has retired but continues as a consultant.

Andrew Taylor, 37, who joined McDonald's in 1979 as a management trainee, has become the first Briton to join the board of McDonald's Corporation, the US fast-food firm with more than 15,000 outlets in 79 countries.

Charles Eisenstein, 51, cur-

rently vice president, general manager of Grow Automotive, promoted to president of the Grow Group's automotive division.

Brian C. Harding, chief executive of The Gemini Group, to senior vice-president, information systems at The Toronto Stock Exchange. John W. Carson, previously the TSE's director of market integrity, becomes vice-president, member and market regulation.

Grant Spencer, currently chief manager financial markets for the Reserve Bank of New Zealand, as treasurer for ANZ Banking Group (New Zealand), from mid-July.

Rickey Wilson, as vice president, worldwide pharmaceutical regulatory affairs, at the Upjohn Company. Prior to joining Upjohn, he was with Syntex Corporation.

Jonathan Sandelman as head of global equity derivatives at Salomon Brothers. He was in charge of US and Latin American derivatives.

David Pearson, 44, replaces Shin Takagi, as managing director of Sony UK Sales Company. Takagi, who becomes vice president for Sony Consumer Products Europe, continues as managing director of Sony United Kingdom.

Todd M. Malan, manager of government relations for the European-American Chamber of Commerce, as executive director of the Organization for International Investment (OFII). Based in Washington, DC, it represents nearly 50 US companies which have overseas parents.

Paul Heaton, formerly with Baring Securities, joins Deutsche Bank Capital Markets (Asia) in Tokyo as senior analyst covering financial sector.

Rollo Prendergast, previously deputy head of ANZ's international merchant banking division in London, has moved to Hong Kong as director, international finance, Asia.

George B. McReddie appointed director of Latin American Investment Banking at Smith New Court Inc. He joins from Oppenheimer, where he was responsible for equity capital markets in Argentina, Chile, and Uruguay.

## International appointments

Please fax announcements of new appointments and retirements to:  
+44 171 873 3828, marked for International People.  
Set fax to "fine".

## BUSINESS LAW

## Vindication for ice-cream pair



EUROPEAN COURT

The European Commission is not entitled to prohibit companies from entering into exclusive agreements in the future, the European Court of First Instance ruled last week. The court said the Commission was not entitled to prohibit existing agreements which were incompatible with the European competition rules.

The ruling was made in the context of a long-running dispute concerning the supply of ice-cream. Two German-based companies sold their ice-creams to retailers in Germany on the basis of exclusive purchasing agreements, under which retailers agreed to buy and sell only their ice-creams.

In 1985, the agreements were notified to the Commission which found them compatible with EC competition rules. In 1991 Mars, whose ice-creams were excluded by the agreements, complained to the Commission. In 1992 it declared them no longer compatible with the rules. It also prohibited the relevant producers from entering into such agreements for five years. The producers appealed to the CFI.

The producers' case was based on three main arguments. The first related to article 85(1) of the Rome Treaty which prohibits the prevention, restriction or distortion of competition. They argued the Commission had misdefined the relevant product market.

The court reiterated that in defining the relevant market, account had to be taken of the consumers' point of view. It found the Commission had failed to include in its definition of the relevant market a particular product which was regarded as interchangeable by consumers with the product deemed by the Commission to constitute the relevant market.

But the court said failure did not materially affect the assessment on competition of the agreements in question. Thus it was not necessary to annul the decision insofar as the overly narrow product market definition was concerned.

With regard to the effect that the exclusive agreements had on competition, the court said the Commission had been correct to conclude that the agreements were liable appreciably to affect competition and that they would contribute significantly to the partitioning of the market.

The second argument covered article 85(3) of the Treaty, which grants exemption from the provisions in article 85(1) in certain circumstances. The applicants argued that the Commission was not entitled to change its position set out in 1985, unless the factual situation had changed or the assessment was based on incorrect information.

The court found there had been appreciable changes in the market after 1985 which allowed the Commission to re-evaluate its position. The applicants also argued that the duration of the agreements was not indeterminate, as the Commission found, but rather for a fixed sub-five year term. The block exemption for exclusive purchasing agreements only applies to agreements of five years or less.

The court said there was no difference between an agreement of unlimited duration and one for two years, with an automatic, repeating one-year extension thereafter, which was the position in this case.

The third argument was procedural. The producers argued there was no legal basis empowering the Commission to prohibit parties from concluding exclusive agreements in the future.

The court ruled the Commission was not entitled to restrict or limit the legal effects of the block exemption. There was no provision in it for the Commission to withdraw its benefit from future agreements. The court therefore annulled the provision in the Commission decision prohibiting the companies in question from entering into similar agreements for five years.

T-7/93 and 9/93: Longmoss-Igo and Scholler Lebensmittel v Commission, CFI 208 June 8 1995.

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## ARTS

## A strong British presence in Venice

William Packer reports from the Biennale, which celebrates its centenary the year

With this 46th multinational jumble of visual art, the Venice Biennale celebrates the centenary of its inception in 1895. The British have been heavily involved from the very first, only in 1920 failing to take part in peace time. It was not until 1930, however, that the British government took this major exercise in international cultural relations under its official wing. In 1938 the then newly-formed British Council took over the direct responsibility which it has continued to administer with remarkable distinction ever since.

In the years before 1914, participating nations began putting up their own pavilions in the gardens in which the Biennale is held to house their individual national contributions. The British presence has always been considerably enhanced by the pavilion we acquired from the Municipality of Venice in 1909. With its flight of steps leading up to its colonnaded terrace, this charming neo-classical building sits happily on the highest point of ground in Venice and commands one

of the principal avenues in the gardens. Lately restored and extended by the British Council, it is now as well set up as any of the pavilions.

In this, of all years, it was particularly important that the council should get its choice of artists to fill this, its flagship, absolutely right, and I have to confess that when I heard it was to be Leon Kossoff I had my doubts. This is not because of any doubts as to the quality of the work. He is one of the best painters now working in England. But it seemed to me that at nearly 70, he might reasonably have been shown at Venice long ago, and that in the busy-busy of this particular Biennale, with all its high-tech and multi-media installation, and self-conscious engagement with the experimental and avant-garde, such deeply wrought and personal work, as Kossoff's unquestionably is, might simply disappear.

I am happy to say that I could not have been more wrong. By standing back from the Biennale with its transient values, Kossoff strikes a real blow for something more permanent.

For here there is no reliance on mere technology, with its easy theatrical frisson and self-important greed for space and material. With Kossoff we are back with the artist working directly with his material making his painting in direct relation and emotional response to the real and visible world. If that is old-fashioned, then I would there were more of it to be found at this, or any Biennale.

It is certainly hard to find any young artist promoted in such a context who is putting paint on canvas at all, let alone with such raw commitment, risk, and adventure. Kossoff has won no prize for that, but his work stands strong and independent within the great tradition of western expressionist painting. More than that, he emerges at last into the international stage as an artist of true stature and authority, finally free of inevitable comparison with his peers on the so-called London School - Auerbach, Bacon, Freud, Kitaj.

This group, along with Hockney, indeed represents a strong and central presence in the post-war section

of the show curated by Jean Clair at Fiat's Palazzo Grassi in the city itself, as part of the Biennale. It rejoices in the title of "Identity and Alterity - Figures of the Body 1985 to 1995" and engages with the multifarious ways in which modernism has dealt with the human figure. More of that in a further review, but the good news for the moment is that though included as an American artist, it is for his contribution within that historic British context that Ronald Kitaj has been awarded the Biennale's prize for painting. The four full length portrait figures shown were painted between 1978 and 1984, and are certainly among the very best he has done.

The British Council's other initiative for this Biennale has been to take over the Scuola di San Pasquale, close beside the church of San Francesco della Vigna, in order to present the young British artist who otherwise would have been included in the Biennale's own international *Aperto* for young artists, which this time was called off. Here there is no painting within the meaning of the act, but

lots of multi-media installation and projection, blood and guts, all well enough done and true to what young artists do these days. It goes collectively by the name of "General Release", and is certainly in accord with the spirit of the Biennale at large. "Great Deeds Against the Dead" by Dinos and Jake Chapman is a gruesome life-size re-working in three dimensions in an image from Goya's etchings of the horrors of war, and "Sargassum" by Dalziel and Scullion, a large muzzling contrivance, shimmers prettily like a free-standing mass of water in the gloom. Elizabeth Wright has miniaturised the telephone directories of Venice, Milan and Rome and Douglas Gordon plays a video-tape of the treatment of an hysterical woman as it was practised 100 years ago. Most elegant of all is Cerith Wyn Evans's "Cleave" with bonal trees back-lit by neon inscriptions - almost illuminating.

The Venice Biennale continues in the Giardini Pubblici and at other locations until October 15.



In the British pavilion: 'Christchurch Spitalfields, Summer', 1994 by Leon Kossoff

## 'The Wildman' at Aldeburgh

In grey, dank weather - the Suffolk kind that looks good on stage in *Peter Grimes* - the first weekend of this summer's Aldeburgh Festival was reassuringly lively indoors. We had a new opera by Nicola Lefanu, *The Wildman*, a large and splendid concert by the BBC Symphony and a brilliant little one by the London Sinfonietta. Both of those last featured pieces by the still-young Finn Magnus Lindberg which verified his soaring reputation; and a chamber concert celebrated the 60th birthday of Nicholas Maw, whose mature rank among the best British com-

David Murray reviews the opening events at the festival

posers is obscured here only by his having moved off to America.

When Ms Lefanu was commissioned to write an opera for Aldeburgh, she again took Kevin Crossley-Holland as librettist (they collaborated on a children's opera in 1990). They hit upon a bit of history from neighbouring Orford, chronicled eight centuries ago by a Cistercian monk. Local fishermen drew up in their nets a wild man, perhaps an aquatic "woodwose", who could neither speak nor recognise Christian symbols even under torture. Unsure of what kind of mortal he might be, they kept him for a while before he escaped to the sea; later he returned for a couple of months, but they found him repulsive, and soon he swam away forever.

In filling out this intriguing fragment, Lefanu and her librettist have turned it into something modern and familiar. *The Wildman* becomes the mysterious outsider who disturbs and attracts, sometimes liberates, the respectable folk he encounters - in the fashion of Paul Newman in *Picnic*, or Terence Stamp in Pasolini's *Teorema*. Here there are dis-

creet echoes of the latter's omnivorous appeal; but *Wildman*'s chief liberatee is the Orford Constable's daughter, reluctantly betrothed to an older man she has never met.

In due course there is a Tristram-like union on a sandbank. By then *Wildman*, after long, passionate monologues on inarticulate vowel-sounds and howls, has remembered his speech - for he was an ordinary child after all, abandoned during a tribal raid; which is somehow disappointing. It turns out to be pure Crossley-Holland, neo-Anglo-Saxon: "Dark heart! Wave-horn! Lp. Lap. Overlap..." Everybody is duly shaken, uprooted, never-the-same-again. Cue for wise old Marile Jane's "That'll always come again, wild as wild!"; reprise of invisible yearning voices and sea-sounds.

Two hours long, the fragile web of Lefanu's unhurried score is evocative and nicely designed. Its strengths lie as much in her pungent writing for solo winds - plangent, personal, suggestive - as for the voices. All that would stand out far better in a completely different production. This one (now on tour, finishing in Bury St Edmund's on June 23) is built around a toytown Orford Castle in all too solid papier-mâché, actually opening up into toy chunks - steps and dungeons etc - when what the opera wants is chiaroscuro glimmers and psychological fluidity.

Graham Devlin's staging is as flat, literal and square-jawed as the set. But a good cast and conductor (Nicholas Cleobury) went some way toward eliciting the darker undercurrents of the music; and Gwion Thomas's *Wildman* had the right charisma from his first appearance, fished out of the sea clad only in seaweed and a pair of Sloggys.

Saturday night's BBC Symphony concert, conducted by Oliver Knussen, began with his own *Flourish with Fireworks*, a bright squall in the young Stravinsky's *Rite of Spring*, and passed directly to Lindberg's massive four-movement *Aura* (1994), a British premiere. That



Gwion Thomas and Stephen Richardson in 'The Wildman' by Nicola Lefanu

was hugely bracing to hear: chock-a-block with determined invention, its grand plan informed by a Sibyllian instinct for unwinking progress toward a resounding destination. Toweringly loud, too - but the Snape Maltings acoustic accommodated it without pain.

The longest work in that concert was Britten's *Spring Symphony*, in which Knussen outdid himself. He revelled in unerring electrical detail, and long-breathed spans that one had hardly guessed at before.

The fervent soloists were Val-dine Anderson, Mary King and above all the remarkable young tenor Ian Bostridge, and the London Symphony Chorus made an unfailingly vital impact. Only the Wenham Boys' Choir let the side down slightly, tame and timorous where Britten expected raucous colour.

Under Markus Stenz the next day, the Sinfonietta repeated their virtuoso account of Lindberg's *Corrente*, loops upon cogent loops of swirling musical patterns, galloping in calcu-

lated steps toward a sharp QED close. The pianist Rex Lawson took turns with the saxophonist whose playing foretold the arrival of the avant-garde. On the other, he owns up to the influences of Stravinsky, The Beatles and Herbie Hancock. Metheny's writing, a collection of American folk, latin and blues, is sweetly romantic, sometimes to the limits of taste.

This strange recipe has attracted to Metheny a large and devoted audience. His records, including the current album *We Live Here* (Geffen

## Opera at Glyndebourne/Richard Fairman

## La clemenza di Tito

It took Glyndebourne more than half a century to bring Mozart's *La clemenza di Tito* into its repertory. The production was the last to be mounted in the old opera-house and so might be said to rest on the foundations of the Mozart tradition for which Glyndebourne has always been famed - but it has much of the new style of the 1990s about it, too.

There were some striking new sounds to be heard at this revival within minutes of the lights going down. Raucous horns, incisive trumpets and drums cut through the orchestral ensemble in the Overture. Although Glyndebourne is not using its period orchestra for this opera, the conductor Mark Elder has given the warm blend of the London Philharmonic a cutting edge by employing natural trumpets, horns and timpani.

It does make a difference. The Overture started the evening with a kick that sent the opera spluttering towards its dramatic goal. Elder seems to have found extra energy since he left English National Opera and many of his speeds were on the fast side, adding to the feel that this was a period per-

formance in spirit if not in fact, chasing after the urgency of conductors like Gardiner and Hogwood. The way he plunged into the Act 1 finale without a moment's pause for breath was exciting.

On stage, the centre of attention was Vitellia, Mozart's one real flesh-and-blood character. Roberta Alexander looked the elegant modern society lady that this production makes her, and if that results in her Roman dynasty coming out more like the American television soap, she was not going to be apologetic about it; this Vitellia radiated lust for power with gleeful style. Her singing also had charisma, except when she was trying to defy the law of gravity. At some point this soprano voice has sunk the low notes boom out from her boots, while the top notes have gone out of reach.

The days when this opera was peopled by characters as lifeless as marble Roman statues happily seem to be over. The dilemma of Tito, the liberal Roman emperor torn between punishment by rule of law or the higher moral law of forgiveness, was made as involving as it could be by Anthony Rolfe Johnson. In the

new Glyndebourne's excellent acoustics he sounds a forceful, authoritative tenor, though with uncomfortable patches now of nasal tone.

Louise Winter gave Sesto energy and tenderness, reaching out to the far corners of the role to look for contrasting vocal colours. Only the final ounce of individuality was missing. Christine Schäfer and Hanne Fischer made an unusually good Servilia and Annio (I particularly liked the sensitivity with which Schäfer's Servilia declined Tito's offer of marriage). Curt Appelgren was an under-the-note Publio.

Nicholas Hynes's production, rehearsed this time by James Robert Carson, puts its own slant on the opera - literally so, as the stage is permanently at an angle of 45 degrees. The scattered relics of the Roman era, here the wing of an imperial eagle, there an emperor's broken statue, are typical of Hynes's glancing cultural references, but the characters step out of their ancient history frame into a living present. This is Glyndebourne's second opera *seria* of the season and it is good to find both alive and kicking in the bracing Sussex air.

## Jazz/Garry Booth

## Metheny plays to the crowd

What makes guitarist Pat Metheny so successful? The 49-year-old Kansas City-born American is something of a jazz connoisseur. On one hand his style draws heavily on the spiky music of Ornette Coleman, the saxophonist whose playing foretold the arrival of the avant-garde. On the other, he owns up to the influences of Stravinsky, The Beatles and Herbie Hancock. Metheny's writing, a collection of American folk, latin and blues, is sweetly romantic, sometimes to the limits of taste.

This strange recipe has attracted to Metheny a large and devoted audience. His records, including the current album *We Live Here* (Geffen

GED 24729), sell in large quantities. What people see in this tousled-haired, denim-clad, boy-next-door type was plain at Saturday's Cambridge Corn Exchange show.

First, Metheny can play the socks off everyone and can oblige on every kind of guitar: acoustic, semi-acoustic, electric and synth axe. Second, his six piece band is supremely well rehearsed and, like the light show, are blindingly precise. What tops it for Metheny fans, however, is that his music and attitude is so damn optimistic.

Metheny has always been master of slickly executed good. Now the heart-on-the-sleeve, relentlessly elevating themes of his songs have been set against heavy electronic drum patterns and *dah-doo-waay*

type vocal harmonies, he is more seductive than ever. Saturday's programme seamlessly joined new material with old favourites like John's "How Insensitive" to create a suite of jazz-rock set pieces. Lyle Mays, keyboards, sets out the sound terrain, while the fooling around of multi-instrumentalists David Blamires and Mark Ledford provided visual fun. Up-front Metheny, mouthing ecstatically, ascended one chord sequence after another.

Such unthreatening heroics apparently go down well. My own feelings are contrary - that Metheny's virtuosic technique and diverse experiences should eventually arrive at crowd-pleasing fusion seems a waste of rare and generous talent. Sales tell a different story.

## INTERNATIONAL ARTS GUIDE

## AMSTERDAM

CONCERTS  
Het Concertgebouw Tel: (020) 671 8345

● Royal Concertgebouw Orchestra: with violinist Jaap van Zweden. Zoltan Pesko conducts Rihm and Stockhausen; 8.15pm; Jun 17

GALLERIES  
Beurs van Berlage Tel: (020) 626 0284

● Salvador Dali - Sculptures and illustrations: retrospective of sculptural work from the 1930's onwards; to Aug 20

OPERA/BALLET  
Het Muziektheater Tel: (020) 551 8922

● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Roeters and Siegfried Vogel; 5.30pm; Jun 13, 16

## BARCELONA

CONCERTS  
Palau de la Música Catalana Tel: (93) 268 1000

● Swiss Romanda Orchestra: with soprano Angela Maria Blasi and baritone Andreas Schmidt. Amin Jordan conducts Brahms' "German Requiem"; 8.30pm; Jun 18

## BERLIN

CONCERTS  
Konzerthaus Tel: (030) 309 21 02/21 03

● Berlin Symphony Orchestra: Kurt Sanderling conducts Beethoven and Mozart; 8pm; Jun 15, 17

● Catalan Festival: soprano Victoria de los Angeles is accompanied by the Guitar Quartet from Barcelona to play Guerrero, Sor, Giuliani and Montsalvage; 7.30pm; Jun 18

● Radio Symphony Orchestra Berlin: with soprano Celine Lindesley, alto Jane Henschel and tenor Donald George. Rafael Frühbeck de Burgos conducts Mendelssohn; 7.30pm; Jun 16

Staatsoper unter den Linden Tel: (030) 200 4782

● Berlin State Orchestra: with pianist Daniel Barenboim, soprano Laura Aikin and mezzo-soprano Katharina Kammerloher. Pierre Boulez conducts Wagner, Bartók and his own compositions; 4pm; Jun 17, 18 (11pm)

OPERA/BALLET  
Deutsche Oper Tel: (030) 34384-01

● Der Rosenkavalier: by Strauss. Conductor Jiri Kout, production by Götz Friedrich; 7.30pm; Jun 13, 15

● Martha oder Der Markt zu Richmond: by Friedrich von Flotow. Premiere conducted by Sebastian Lang-Lessing and produced by Winfried Baumeister; 7.30pm; Jun 16

● Onegin: music by Tchaikovsky. Premiere at this venue,

choreographed by John Crenko, produced by Reid Anderson and Jane Boume; 7.30pm; Jun 14, 17 (5pm)

● Tristan und Isolde: by Wagner. Conducted by Jiri Kout and produced by Götz Friedrich; 5.30pm; Jun 16

## BRUSSELS

CONCERTS  
De Munt/La Monnaie Tel: (02) 218 2211

● Juliana Banes: soprano accompanied by pianist Wolfram Rieger; 8pm; Jun 16

OPERA/BALLET  
De Munt/La Monnaie Tel: (02) 218 2211

● The Masked Ball: by Verdi. Conducted by Antonio Pappano and produced by Guy Joosten. Soloists include Franco Fara/Richard Margison, Edouardo Tumbayán/William Stone and Elena Zarembo; 8pm; Jun 14, 15, 17, 18 (3pm)

● LONDON

CONCERTS  
Barbican Tel: (0171) 638 8891

● London Symphony Orchestra: with soprano Cheryl Studer and cellist Tim Hugh. Andre Previn conducts Mozart, Beethoven and Strauss; 7.30pm; Jun 15

● Royal Philharmonic Orchestra: with violinist Jonathan Carney. Yehudi Menuhin conducts Mozart, Takamitsu and Brahms and Sir Peter Maxwell Davies conducts the London premiere of his "Time and the Ravens: United Nations Overture", written for the 50th anniversary celebrations of the United Nations; 7.30pm; Jun 14

Royal Festival Hall Tel: (0171) 926 8800

● Itzhak Perlman: with the Philharmonic Orchestra Yoel Levi conducts Brahms' "Academic Festival Overture" and "Violin Concerto No.3"; 7.30pm; Jun 13

● Itzhak Perlman: Yoel Levi conducts Bernstein, Barber and Tchaikovsky; 7.30pm; Jun 15

● Itzhak Perlman: Yoel Levi conducts Sibelius and Mendelssohn; 7.30pm; Jun 17

● New York Philharmonic: Kurt Masur conducts Strauss' "Metamorphosen" and Beethoven's "Symphony No.3"; 7.30pm; Jun 18

GALLERIES  
Barbican Tel: (0171) 638 8891

● George Rodger: retrospective of approximately 250 pictures which includes pictures taken during WWII; to Aug 27

Riverside Studios Tel: (0181) 741 2251

● Yevgeny Khokhaev: war photographs by the artist who was employed by the Tass news agency during WWII; to Jun 17

OPERA/BALLET  
Royal Opera House Tel: (0171) 304 4000

● Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francis Egerton, John Dwykars and Rodney Gilfry/Peter Coleman-Wright; 7.30pm; Jun 13, 15

THEATRE  
National, Cottesloe Tel: (0171) 926 2252

● Richard II: by Shakespeare. Deborah Warner's new production featuring Fiona Shaw as the king; 7.15pm; Jun 13, 14 (2pm)

National, Lyttelton Tel: (0171) 928 2252

● Absoluta Hell: by Rodney Ackland, directed by Anthony Page. Bohemian life in a London drinking club in 1945. Cast includes Judi Dench and Greg Hicks; 2.15pm; Jun 13

National, Olivier Tel: (0171) 928 2252

● Under Milk Wood: by Dylan Thomas. Directed by Roger Michell and stars Robert Iythe; 7.15pm; Jun 13 (2pm), 14

● Women of Troy: by Euripides, translated by Kenneth McLeish and directed by Annie Castledine; 7.15pm; Jun 19

● PARIS

CONCERTS  
Châtelet Tel: (1) 40 26 28 40

● Choir and orchestra of Les Arts Florissants: with soprano Susan Bullock, alto Susan Bickley, tenor Mark Padmore and bass Thierry Faki. William Christie conducts Beethoven; 8pm; Jun 16

Champs Elysees Tel: (1) 49 52 50 50

● National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor Thomas Dewald and bass Michael Volle. Charles Dutoit conducts Beethoven's "Symphony No.1" and "Symphony No.9"; 8pm; Jun 14, 15

GALLERIES  
Louvre Tel: (1) 42 60 39 26

● Hans Memling: exhibition of paintings by the Dutch master to commemorate the 500th anniversary of his death; to Aug 14

THEATRE  
Théâtre de Nesle Tel: (1) 46 34 61 04

● Faith Healer: by Brian Friel. Alcoholic faith healer in Ireland. Cast includes Les Cluck, Patricia Kessler and William Doherty; 8pm; to Jun 14

## VIENNA

CONCERTS  
Gesellschaft der Musikfreunde Tel: (1) 505 1383

● Les Arts Florissants: William Christie conducts soprano Susan Bullock, mezzo-soprano Susan Bickley and tenor Mark Padmore to play Beethoven; 7.30pm; Jun 14

Wiener Konzerthaus Tel: (1) 712 1211

● Viennese Philharmonic Orchestra: Lorin Maazel conducts Shostakovich and Strauss; 7.30pm; Jun 18

● Viennese Symphony Orchestra: with tenor James Wagner. Raphael Frühbeck de Burgos conducts Berlioz's "Grande Messe des Morts"; 7.30pm; Jun 16, 19

● War and Peace: by Prokofiev. Concert performance with Pinchas Steinberg conducting Austrian Radio Symphony Orchestra. Soloists include Elena Prokina and Marina Shutova; 7.30pm; Jun 13

● WASHINGTON

GALLERIES  
National Gallery Tel: (202) 737 4215

● Piet Mondrian: exhibition of 147 works on the 50th anniversary of the artist's death; to Sep 4

THEATRE  
Kennedy Center Tel: (202) 467 4600

● Angels in America: Perestroika. Part Two of the Tony Kushner award-winning play about politics, sex and religion. Stars Jonathan Hadary; 7.30pm; to Jul 9 (not Mon)

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## Europa: Michael Stürmer

## The need for a grand design



Redrawing the map of Europe was never going to be a simple, cost-free or safe process. Yet the speed of events since the fall of the Berlin Wall raises important questions about the west's strategy for dealing with the former Soviet bloc.

The resulting fragmentation of central and eastern Europe cannot be regarded as the final verdict of history - by the west, Russia or the nations coming in from the cold. The new situation is fraught with rivalry, misunderstanding and distrust, and there remains a danger of the cold peace turning into a new cold war.

The Russian leaders and their advisers say they are in favour of the closer integration involved in creating the European Union - which includes a strengthening of the Western European Union (WEU) as its defence pillar. At the same time, however, Moscow fulminates against plans to expand Nato into eastern Europe.

The Poles, Czechs and Hungarians see the Nato alliance as their first chance in life to be allied with the US and to find themselves on the side of the stronger battalions. But it is probably too much to hope that the Russians will see Nato membership for such countries as beneficial.

Moscow probably understands that the economic and social stabilisation of their neighbours offers them tangible advantages. They may even feel that the WEU might give those countries some reassurance that they are not alone when the going gets tough.

But it is not clear that the Russians appreciate the intimate connection between the WEU and Nato. Through their overlapping membership and mutual security guarantees, WEU members are in practice covered by the Nato defence umbrella.

Or perhaps the Russians want to make Nato hollow by encouraging a wider membership of the WEU. That would mean either back-door entry into Nato and dramatic overstretching of the Atlantic alliance, or a dangerous rupture between the WEU and Nato.

If the Russians have some-



Flashpoint in history: the Berlin wall fall in November 1989

thing resembling a grand strategy in this, the west needs its own grand design. This would mean giving up the present fragmented and piecemeal approach and proposing a package deal that would offer the Kremlin a more stable security environment.

One part of that package - the widening of the European Union - is less controversial with the Russians than it is in western Europe. However, the expansion of Nato to the east is a real problem for the Russians. It is in the west's interest to make the net result of both processes congruent in the final stage - that is, some time in the next decade.

Some, especially in the US strategic community, have argued that now is time to move forward, while Russia is weak. For those with a long memory, this has a whiff of the Treaty of Versailles imposed on Germany at the end of the first world war, with all the attendant bitterness and subsequent efforts to overturn it. It would not be a wise precedent to follow.

and which not a dialogue between Nato and Russia - "Sixteen plus One" - offers some diplomatic charms as long as Nato drives the agenda and steers clear of any kind of Russian veto.

The most likely cause of conflict between Russia and the west is Ukraine. So far, the Russians have behaved in a civilised, even helpful, manner, towards Ukraine but Moscow cannot stand by with folded arms if Ukraine appears to be drifting out of its sphere of influence. One way to save the essence of Ukrainian statehood, sovereignty and independence would be to encourage and support some sort of east European economic community.

As far as the Baltic republics are concerned, it would be far-fetched to bring them into Nato's fold, not least for reasons of history, geo-political strategy and credibility. While they should be given every sign of friendship, this should stop short of full membership of the EU, because of its implications for the WEU.

With Russia, a dual strategy of co-operation and competition is of the essence. It should not be diverted by the present swings between confessions of friendship for Russia's masters and moral condemnation of their actions. A great power such as Russia has no permanent friends, only permanent interests.

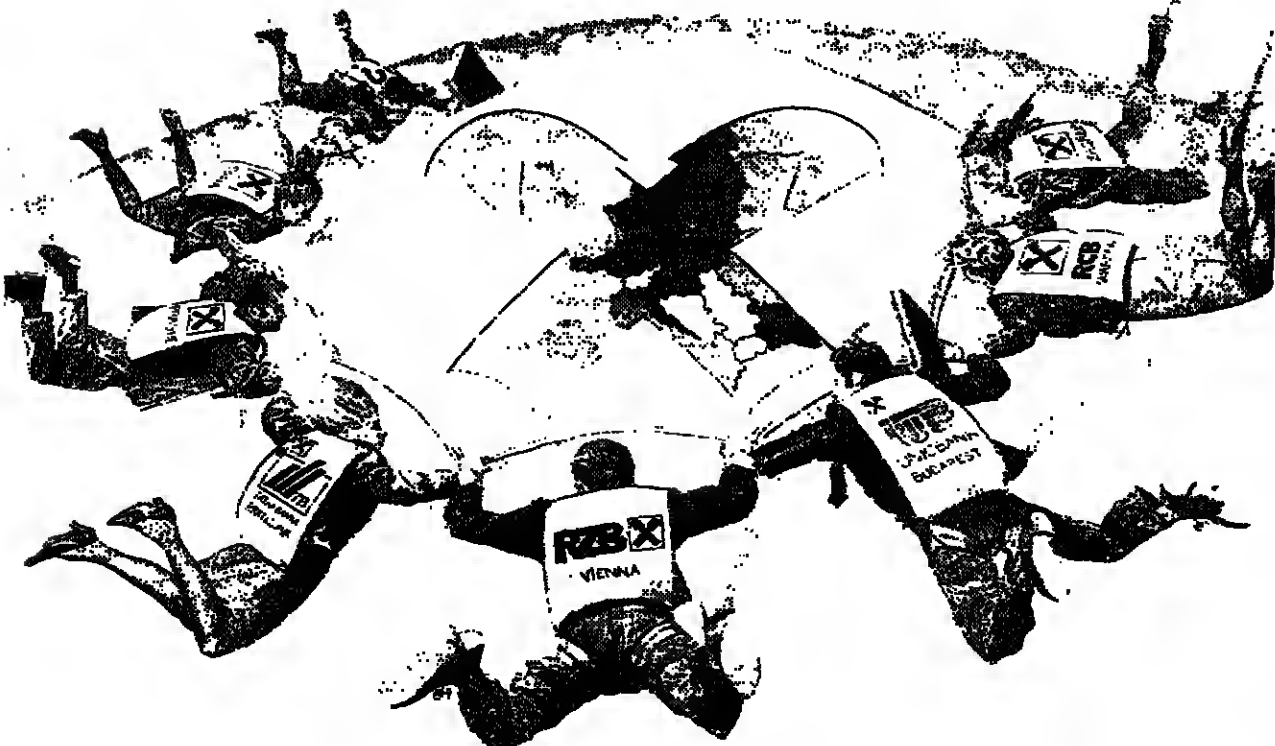
It should not be forgotten that Nato countries and Russia have much of the strategic agenda in common, such as the non-proliferation of nuclear weapons and stopping the spread of missile technology. They also share a growing concern over what has been termed a "clash of civilisations" with the Islamic world which reaches closer to Russia than to the Europeans, let alone the US.

It is impossible to offer the Russians membership of the EU or Nato. But there is no need to create a situation that threatens to overstretch the west and also runs the danger of losing Russia.

The author is director of Stiftung Wissenschaft und Politik, the German foreign affairs and defence policy institute.

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## LETTERS TO THE EDITOR

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We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'time'). Translation may be available for letters written in the main international languages.

## Realities of the global marketplace

From Mr Christopher Pate

Sir, Robert Taylor misses the point when he downplays the importance of international labour migration ("Myth and reality of labour in a global economy", June 9).

Technological developments and the erosion of trade barriers allow industries such as printing to operate on a global basis. Text inputting, graphics and printing itself can be carried out wherever in the world that the optimal combination of low wage costs and product quality obtain, no matter where the market is.

Workers no longer need to move from country to country to undercut each other. The thousands of printing workers in southern China producing books and catalogues for western markets earn a tiny fraction of the wages in industrialised countries, work twice the hours in the most hazardous of conditions, and are banned from forming trade unions.

The global economy is a reality. Employers or trade unions which continue to think in predominantly national terms belong in the museum. What international trade union organisations such as the IGF oppose are short-sighted attempts to profit from the cut-price labour exported by repressive regimes such as those in China and Indonesia.

We may not be as rich, but we are just as serious players in the global marketplace as the transnational media giants. Christopher Pate, general secretary, International Graphical Federation, Rue des Fripiers 17, Galerie du Centre - Bloc 2, B-1000, Brussels, Belgium

## Confusion on Bosnia

From Mr Y. Kovach

Sir, Allowing the Serbs a free run would, according to Joe Rogaly ("The lion's distant roar", June 3), send a wrong message to the neighbouring states whose borders could be challenged on ethnic grounds. This is to confuse a long established frontier, such as the one between Serbia and Albania dating back to 1912, with internal administrative lines defining federal units.

Moreover, the first sentence of the preamble to the 1974 constitution of the former Yugoslavia granted the right of self-determination to its constituent nations, rather than federal units. The EU knew better, decreeing that each of Yugoslavia's federal units would have the right to secede on the basis of a referendum. And yet it is received European wisdom that a referendum is too crude a device for resolving the ethnic problems of Belgium and Ulster.

Y. Kovach, 38 Lebanon Park, Twickenham, Middlesex TW1 3DG, UK

## Character is missing

From Mr M.T. Lee

Sir, Re Observer's "Clarion call at Sandoz" (June 8) and the current fashion for made-up names, companies with names like Clariant, Zeneca and Coriant are probably the unfortunate victims of (a) advice from "naming" consultants and/or (b) a decision taken - or worse, mangled - by committee. While such names may be capable of being registered, protected and easily pronounced, the lack of an essential ingredient, character and personality.

The names Apple, Sony and Virgin would never, I wager, have seen the light of day if their founders had depended on either a or b above. When Charles and Maurice, the masters of promotion and communication, founded their company, they simply called it Saatchi & Saatchi. Would Martin Sorrell's Wire and Plastics Products have just become WPP if he had been advised by one of the corporate identity consultancies the company owns?

More important, would an alternative made-up name, no doubt with allusions to dynamism, empowerment, creativity, etc. have been any better? As for having names which are easy to pronounce, Mercedes Benz and Volvo continue to sell well in Asia despite the apparent difficulties of pronunciation; among Chinese speakers in Hong Kong, they are referred to as "Benz-zee" and "Wowo" respectively.

Lee Mun Tuck, 21 Thames Reach, Rainville Road, London W6 9HS, UK

## Myth of monetary sovereignty and of UK's future in Europe without monetary union

From Mr Christopher Johnson

Sir, Martin Wolf ("On monetary sovereignty", June 12) proves to his own satisfaction that monetary sovereignty is not a myth because for it to be mythical "a monetary authority either must be incapable of altering policy or will have no impact on real economic variables, if it does. Each proposition is mistaken".

Monetary sovereignty surely consists not just in being able to alter monetary policy, but in being able to achieve specific objectives by doing so. A country may have monetary sovereignty over its interest rates, but in a system of free capital movements the foreign exchange markets have sovereignty over its exchange rates. Since monetary conditions are set by both interest rates and exchange rates, no country can have sovereignty over its monetary conditions in such a system.

In one example quoted by Wolf, the UK was able, after its departure from the exchange rate mechanism in September 1992, to cut interest rates, and the markets lowered the pound's exchange rate against the D-Mark to a level now 25 per cent below the DM12.95 ERM central entry rate.

Thanks to spare capacity in the economy, there were minimal inflationary consequences, and a real devaluation resulted, with favourable effects on British exports. The British monetary authorities could hardly believe their luck, and the economic analysts were just about able to explain it as a special case, unlikely to be repeatable. It is fanciful to describe this as an exercise of monetary sovereignty, in the sense of a set of considered policy changes aimed at specific objectives successfully achieved.

Christopher Johnson, UK adviser, Association for the Monetary Union of Europe, 39 Wood Lane, London N6 5UD, UK

From Mr Stephen Goschall

Sir, Tim Melville-Ross's proposition (Personal View, June 7) that an opt-out of European monetary union is in the best interests of the UK rests on insecure foundations. Yes, if a British government had followed a "sensible and credible" domestic monetary policy at any time for the last 40 years. Yes, if the UK left the EU completely and so was outside the reach of the investment services directive, the banking directives, the directive on insider dealing, etc. Yes, if the UK had a "low taxation and light regulation" environment. Unfortunately, none of these holds true and looks unlikely on any past experience. Therefore the haven of an Emu looks extremely attractive from the perspective of Britain's political monetary policy, regulated financial services sector, rising tax burden and roller coaster economic performance.

Stephen Goschall, 41 Meadoway, London NW11 7AX, UK

From Mr Walter Grey, in a powerful presentation of the case against Britain's participation in a single European currency, raised one fundamental question while omitting to address another.

The fundamental question he raised is whether, as he asserted, "the benefits of low inflation" - and hence, at long

last, of sustained, non-cyclical economic growth - "could still be achieved by pursuing a sensible and credible domestic monetary policy". In theory, they doubtless could be, the same stability-oriented economic (including fiscal) management being required for permanently low inflation for one country as in a group of like-minded ones bound together in a monetary/currency union. In practice, however, Britain's still relatively high interest rates are continuing to call the credibility of its new, reformed monetary regime into question.

Equally pertinent is the question, passed over in Mr Melville-Ross's condensed version of his institute's case, of whether a single market like the European one of which the UK forms part, or indeed the UK's own, can be complete

monetary union: in comparison with the inspiring prospect of a currency whose stability is for the first time placed beyond the reach of political interference, the objections raised by Mr Melville-Ross's institute are insignificant.

Charles Young, director of research, LMC Automotive Services, 14-16 George Street, Oxford OX1 2AF, UK

From Lord Cobbold. Sir, The City must challenge the Institute of Directors' advice to opt out of European monetary union.

Britain's financial services industry is Europe's market leader. A single market in banking, insurance and investment comes only with a single currency.

If we want the Bank of England to play New York Fed



without a single currency as a unifying as well as stabilising force. On that, surely, there can be little room for doubt.

Walter Grey, 12 Arden Road, Finchley, London N3 3AN, UK

From Mr Charles Young

Sir, What innocent optimism is revealed by Tim Melville-Ross when he writes in his discussion of the case against monetary union (Personal View June 7) that "the benefits of low inflation could still be achieved by pursuing a sensible and credible domestic monetary policy", without saying any more about what this would entail.

If one were to analyse in more detail what would be required to make monetary policy credible, one might conclude that a necessary condition is to emulate countries with independent central banks, and remove from politicians the power to create inflation when politically expedient. This power is euphemistically referred to as "monetary sovereignty" by politicians reluctant to relinquish it (a group which, significantly, includes those who have recently suggested that a bout of house price inflation would be politically desirable for the Conservatives).

If, furthermore, one were to ask how genuine independence of monetary policy could be achieved in a country as politically centralised as the UK, one would probably conclude that it would require a supra-national system, which realistically will be available only within a European framework. This is the core of the case for

to Frankfurt's Federal Reserve Board and the London Stock Exchange to be Europe's Big Board, we must be in there from the beginning.

As for former chancellor Norman Lamont's superstate, there is no question of the UK ceasing to be a sovereign power. It would always be possible in extremis to withdraw from the monetary union.

Cobbold, Knebworth House, Knebworth, Hertfordshire SG3 6PY, UK

From Mr Nicholas Crosby

Sir, Your leader on Emu ("Emu decision", June 9) mistakes accountability for direct political control. You argue that the proposed European central bank would be "unaccountable". Not true. The bank would be (see the Maastricht treaty) accountable in three ways. First, before the law governing its statutes. Second, to the Council of Finance Ministers, who would select bank members and before whom the bank's president would report. And, third, to the European parliament, before which the bank's president would present his/her policy and be questioned.

For those who believe that day-to-day political meddling in monetary policy merely leads to inflation and market uncertainty, the lack of direct control over the European central bank is to be welcomed. The bank, under the Maastricht treaty, is charged with pursuing price stability. It will be free to do that, but it will not be unaccountable.

Nicholas Crosby, 15 Avonmore Road, London W14 8RP, UK

## No control on information

From Mr Charles Cawley

Sir, The article "The prize that lies in foreseeing the future" (June 8), by Professor Gary Hamel of the London Business School, emphasised the need for business to recognise the move from the machine to the information age. Although covering the subject at length and in many different aspects, he appeared to miss out one most serious problem: the current lack of control of information flows in business.

By coincidence a Mori poll survey commissioned by Security Gazette, published at about the same time, revealed fraud by middle managers was "rife", costing British industry as much as 7.5 per cent of turnover. Contrasted with R&D spending levels, these figures give grave cause for concern.

Prof Hamel did not go as far as to pin down the key area of weakness: the command structure. Should supervisors find it personally convenient to cover up some matter to keep their reputation intact, they have the power to use downward disciplinary authority to ensure the silence of their

junior managers and supervisors. Downward disciplinary power can be engineered to run bang into upward information flow.

In crude terms, the fast track to losing your job or finding promotion prospects blocked is to whistle blow for the good of the company.

The command structure gives control freaks the power to taint and stop information from flowing upwards. Thus information which is company property, is frequently damaged, stolen or hidden. The facility to blackmail juniors into silence is built into its formal definition.

It is urgent that business recognises information as property and its life blood. The command and control structure does not act to control information flow and leaves businesses open to wholesale information theft and the covering up of the results of fraud and incompetence. For the information age, this is the equivalent of engines running amok in the machine age.

Charles Cawley, 30c Great Sutton Street, London EC1V 0DU, UK

## Statutory recording

From Mr Grant R. McKenzie

Sir, Roger Taylor's article "Investment company taping systems 'waste of money'" (June 8) highlights the serious problem of the failure of investment companies properly to record telephone conversations with customers and to retain the recordings for reasonable periods, but does not mention any recommendation made by the Investment Ombudsman in this connection.

In my opinion, there should be statutory requirements (not merely a rule of the Stock Exchange) for all investment management companies to record all telephone discussions with customers. This should be to reasonable standards of clarity, and every recording should be retained for a period of, say, two years and a copy supplied at cost price, on request, to the customer within, say, 10 days, of any such recording.

Grant R. McKenzie, Midland House, 85a Manchester Road, Altrincham, Cheshire WA14 4RJ, UK



## FINANCIAL TIMES

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Tuesday June 13 1995

## Fears of a slowdown

Take millions of individually sensible people, put them together in a financial market and what do you get? A certain excitability. Not so very long ago, markets feared some economies were growing too fast; now they fear recessions. This fear ought to be exaggerated, not just because the evidence is still thin, but because policy-makers are in an excellent position to reverse any sustained economic slowdown.

True, global growth does seem to have slowed sharply in the first half of this year. Economists at Goldman Sachs even believe growth of manufacturing output in the five major industrial economies will prove negative in the second quarter of this year and suggest this may also prove true of GDP. They are particularly pessimistic about the US and Japanese economies. Worriers should remember, however, that annualised quarterly growth rates are notoriously unstable.

An obvious explanation for lower growth is the US monetary tightening of last year. Additional forces would be currency instability, particularly the appreciation of the yen against the dollar and the depreciations of several European currencies against the Japanese yen; the debt problems of the Japanese banks; and the contractionary macroeconomic policies of several European economies, including the UK, Italy and Spain.

The Federal Reserve itself should not be too worried, provided the US slowdown does not prove excessive. One reason this is unlikely is that US 10-year interest

rates have fallen back to 6.4 per cent, after rising from 5.2 per cent in October 1993 to 8 per cent in November 1994.

Nevertheless, some policy changes are desirable, above all in Japan. Since asset prices continue to fall, Japanese banks will find it virtually impossible to trade their way out of their bad debts, recently estimated at ¥40,000bn (\$415bn). The real exchange rate of the yen also appreciated almost 15 per cent between January and April of this year. In response, there has been some easing of Japanese monetary policy, while yields on 10-year bonds are down to 3 per cent. But Japanese fiscal and monetary action remains much too little, far too late.

The case for further monetary easing in Germany, where inflation is low and broad money has not grown since April of last year, also looks increasingly strong. Such action would reduce strains on European exchange rates and stimulate appreciation of the floating peripheral currencies against those in the core. To the French this would be a manna from heaven.

The growth of market economies normally needs to be hit very hard if it is to be stopped. The cheering fact is that there is now no reason to do so. Monetary growth is modest almost everywhere, while consumer price inflation is running at an annual rate of only 2.5 per cent in the group of seven leading industrial countries. There may well be no sustained slowdown. If there is, there can be no obstacle - bar folly - to decisive offsetting action.

## Italian anomalies

Sunday's Italian referendum was rather like one of those questions which appear in logic examinations: is the proposition that "this statement is untrue" true or false? Silvio Berlusconi's opponents urged the voters to limit television ownership, on the grounds that too high a concentration gives the owner too big an opportunity to influence voter behaviour. Mr Berlusconi himself quite shamelessly used his three television channels to urge the opposite, suggesting that a yes vote would drive the most popular programmes off the air, and ignoring instructions from the media watchdog commission to give his opponents right of reply. By voting as he asked them to do, or in the case of 43 per cent of them by not bothering to vote at all, the majority of voters may be thought to have justified his opponents' fears.

The issue is one that affects all modern democracies. In Italy it has been dramatised by Mr Berlusconi's success last year in turning himself overnight into a politician, and using his media power to propel himself into the country's highest political office, which gave him control of the state television network (RAI) as well. He proved less skilful in managing a parliamentary coalition than he had been in managing public opinion with the result that he is now out of office again. His success on Sunday may help him to return to power by forcing early elections. Another referendum held at the same time showed a narrow majority in favour of privatisation

the RAI, so that in theory Mr Berlusconi would be free to buy that too.

In practice the effects of the referendum are much less clear. Formally their object - the only one for which the Italian constitution allows them - was to abrogate laws already on the statute book. The 1990 law on media ownership, which the people have now refused to abrogate, will none the less have to be changed because it had already been declared invalid by the constitutional court, the ultimate arbiter in such matters unless the constitution itself is amended. Similarly the vote for privatisation formally abrogated the provisions in the existing law which define the RAI's present state ownership. It will be up to parliament to make new provisions.

The 1990 law, which assigned three channels to the state and three to Mr Berlusconi's Fininvest conglomerate, was arbitrary and wrong from the outset. Mr Berlusconi made things worse last year by refusing to recognise the conflict between his business interests and his political responsibilities. His efforts to extort from him by public pressure, and were clearly not convincing. Now his apparent victory in the referendum has made an already anomalous situation even more so. But by highlighting the dangers of unregulated media ownership, it may have done other democracies a back-handed favour.

## Myopic memoirs

There is nothing remarkable in Lady Thatcher's description of the woes afflicting Mr John Major's administration. She has scarcely concealed her disappointment with her chosen successor since he replaced her in 10 Downing Street. You do not have to be a former prime minister to understand that voters do not like governments which break their promises and raise taxes instead of reducing them. And an economic recovery without the familiar British housing boom - to which she owed some part of her own popularity during the 1980s - does not win many easy votes either.

Lady Thatcher's prescription for a recovery in the government's fortunes is much less credible. She insists that, at home, the answer is for Mr Major to be more Conservative, by which she means, of course, more Thatcherite. Her principal demands appear to be the restoration of more generous tax allowances for homeowners and for married couples, and a switch in resources from the welfare state to the police.

It is a prescription which ignores part of her legacy - an inflationary expansion and the great expense of abolishing the poll tax - and which defies sensible economics. There has been much to take issue with in Mr Major's management of the economy, but it will not be mended by the return of tax privileges for homeowners. Lady Thatcher is right to judge that the government too often seems at the mercy of events. She is wrong to believe

it can rediscover strategic direction through a selective reading of recent history.

His predecessor reserves her greatest scorn, however, for Mr Major's policy towards Europe. She insists that she would never have signed the Maastricht treaty (a debatable proposition) and demands that her successor rule out any British participation in a single currency. Curiously, and against all the evidence from Washington, Lady Thatcher believes that a special relationship with US could be rebuilt if the UK retreated from a central role in Europe.

It is here that she identifies again the fault-line in the Conservative party and the cabinet, which still threatens Mr Major's premiership. In other circumstances her scathing attack on the prime minister's "Yes, Yes" to Europe (as opposed to the "No, No, No" which led to her downfall) might be brushed aside. Lady Thatcher's principal purpose in these last few days has, after all, been to promote the second volume of her memoirs *The Path to Power*.

But, as she must be aware, Mr Major may face a challenge to his leadership in the autumn. The Eurosceptics, her supporters, are demanding his rule out a single currency as the price of staying in No 10. Lady Thatcher's broadsides serve to further destabilise her successor. It would be the ultimate irony if the principal beneficiary turned out to be Mr Michael Heseltine.

In a sudden change of heart, Lotus Development agreed over the weekend to be acquired by International Business Machines for \$3.52bn in cash. The deal represents a bold attempt to establish a new powerhouse in the software industry to challenge Microsoft, the world's largest software company.

The deal was sealed on Sunday, just six days after IBM launched its hostile \$60-a-share bid for Lotus. The rapid capitulation of Mr Jim Manzi, Lotus chairman and chief executive, who had rebuffed IBM's earlier attempts to discuss a possible business combination was, however, surprising.

It appears that Mr Manzi determined quickly that alternative bids for Lotus were unlikely to emerge. Last Tuesday evening, just a day after IBM launched its hostile bid, he established the outline of a merger agreement over dinner at the New York apartment of Mr Lou Gerstner, IBM chairman and chief executive.

"When I started thinking about this, and realised that this was an incredibly great strategic move for IBM to acquire Lotus, I knew that there would be some tremendous benefits that would unfold if we were able to get it done," said Mr Manzi, who has agreed to stay on at Lotus as chief executive.

In marathon negotiations over the next few days, the companies agreed to a slightly sweetened \$64 a share price, with assurances that Lotus would retain a degree of autonomy as an IBM subsidiary. Achieving an agreed merger was critical for IBM in its quest to acquire Lotus because, without the support of its top developers, the software company's most important assets might have "gone down the elevator", as Mr Gerstner put it.

Making the Lotus acquisition a success will, however, be a test of Mr Gerstner's leadership at IBM. Coming two years after he joined the computer company, it is his most visible strategic move to date aimed at putting IBM back on a growth path.

Although IBM has made a strong comeback over the past year, reversing heavy losses, the recovery has been largely due to heavy cost cutting and an unexpected revival in the market for mainframe computers. The company believes that the Lotus acquisition could enable it to seize leadership in software for network computing - one of the strategic imperatives identified by Mr Gerstner last year as critical to IBM's future.

Lotus holds the key to this new era of computing, IBM believes, in its Lotus Notes "groupware" product which enables teams of people to collaborate via computer networks, exchanging messages, co-ordinating activities

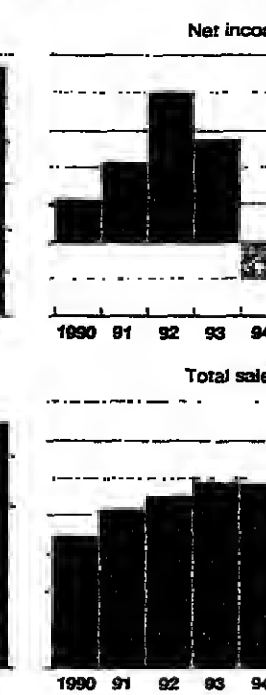
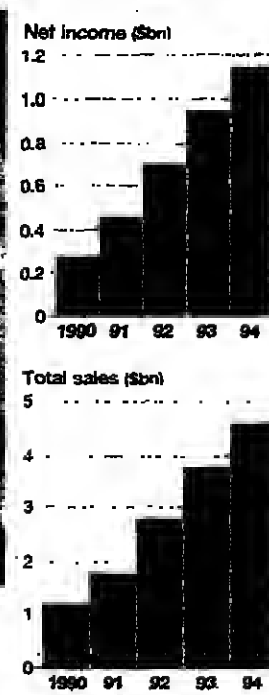
## IBM gambles on growth platform

The Lotus deal may be a last chance to counter Microsoft's domination in software, says Louise Kehoe

Software struggle: Microsoft pulls ahead as Lotus falters



IBM chairman



Source: Standard and Poors

and sharing information.

Notes is the top-selling product in the emerging market for groupware, with few competitors. It has about 1.6m users, including some of the largest accounting groups such as Price Waterhouse and Ernst & Young. Chase Manhattan bank uses Notes to help its employees communicate and process information in an up-to-the-minute manner.

One of the attractions of groupware is that it can be customised to meet the needs of a company or group of workers. Thus a business might create a Notes application specifically for its customer service representatives and another for its product development group.

Unlike general purpose communications software, Notes creates an intimate "country club atmosphere" within a work group, says Ms Angela Hey of Input, a market research group. "Notes automates business processes and individual tasks," she explains.

A cottage industry of hundreds of programmers creating Notes applications and helping companies to use it on their networks has grown up over the past few years. Input predicts that total revenues from Notes, including related services, could top \$4bn by 1999.

IBM's dream is to establish Notes as a ubiquitous software "platform" for network computing, usurping the role of Windows, Microsoft's operating system programme for desktop personal computers.

For some years, IBM has been fighting a losing battle to establish its OS/2 Warp as an alternative to Windows. Now IBM aims to "take the strategic highground - control of not just the desktop but also the network," says Mr David Coleman, editor of GroupTalk, a newsletter on workgroup computing.

Yet Microsoft will not be easily outflanked. This summer, the software industry leader is planning to launch Windows 95, a new version

of Windows (though this may be delayed by an anti-trust action by the US Justice department). Later this year, it is expected to introduce a programme called Exchange that will be a direct competitor to Lotus Notes. Microsoft is expected to incorporate the software needed to use Exchange in Windows 95.

Moreover, Microsoft is pushing into the network market with Windows NT, a version of Windows designed for use on networks in what is perhaps Microsoft's greatest threat to IBM. Lotus Notes also faces heavy competition from developers of software used on the World Wide Web, the part of the Internet used for business communications.

In addition to bringing Notes, the Lotus acquisition could give IBM another chance in the lucrative market for PC applications, a market where it has so far failed to make any impression. About 65 per cent of Lotus's 1994 revenues of \$970m came from sales of its PC

programmes including the latest version of Lotus 1-2-3, its flagship spreadsheet.

However, sales of Lotus applications have been declining in the face of stiff competition from Microsoft. Industry observers believe that Lotus and IBM will complement one another and become a far more powerful force in the software market following the merger. IBM might, for example, install Lotus Notes on all the PCs it sells. Mr Gerstner has hinted. The company's worldwide sales force is also available to boost Lotus sales to corporate customers.

"Together, under the IBM umbrella, the combination will capture more businesses and market share than separately, although it will take some time for them to demonstrate the synergy and get deployed selling and installing systems," says Ms Mary Pat McCarthy, national director of software at the consulting arm of KPMG, the accountants.

The biggest challenges facing IBM as it moves forward with the merger will be cultural, observers predict. Lotus is known for its free-wheeling culture whereas IBM is notorious for its bureaucracy.

IBM should "keep its hands off Lotus and allow the absorption to occur slowly," says Mr Coleman of GroupTalk.

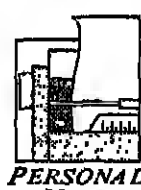
Already, Mr Gerstner has indicated that he will look to Mr Manzi for strategic advice and that Lotus will become the core of IBM's groupware activities. He has already provided a unique perspective on what is ahead for IBM and Lotus as they complete their merger in an interview in April, apparently before he had made a decision to seek to acquire Lotus.

"I have done a lot of acquisitions in my career," Mr Gerstner said then. "It always looks easy... but an acquisition doesn't begin until after you have paid the money and all the stories have been written. Then you have to deal with how do you integrate the companies and the cultures? How do you keep people happy who have suddenly become very rich [from the purchase of their shareholdings]?"

Acquisitions in the computer industry are a "high risk strategy," said Mr Gerstner. "I am not afraid to do acquisitions, but I have seen too many that simply don't produce shareholder value."

Yet for IBM, the risks of acquiring Lotus appear to be worth taking. This may be IBM's last chance to counter effectively Microsoft's growing domination - not only of desktop computing software, but also of software for the next generation of computer networks.

## Monetary virtue leads two-peso tussle



PERSONAL VIEW

Which is better, a fixed exchange rate or a flexible one? No question in economics has been debated more fiercely or more inconclusively. The reason is that neither system is without its flaws, and nobody has been able to quantify the trade-off.

Nor, usually, is history much of a guide, because one never sees a controlled experiment: if the world economy was more stable during the fixed-rate era from 1950 to 1973 than during the floating-rate era that followed, who is to say that the instability did not originate in the real economy and spread to exchange rates, rather than the other way around?

Over the past six months, however, we have seen what looks like an unusually clear-cut test between fixed and floating rates in Latin America. On the face of it, a rigid commitment to a fixed rate has won hands down. But the test is not over yet; a come-from-behind victory for floating rates is still a possibility.

Until late last year, Mexico and

Argentina were often discussed by economic analysts in the same breath. After seven lean years of debt crisis, both had emerged through a combination of market-oriented reforms and an abrupt return to the favour of international capital markets. Both had brought down inflation, largely through the use of a strong peso as a signal of their commitment to price stability. And both had resumed growth after years of stagnation.

The difference between the two nations' economic policies, it seemed, was a matter of detail. Mexico had followed a strong peso policy, but without committing itself to a fixed exchange rate. Argentina, on the other hand, had tied itself to the mast with a policy borrowed from the colonial past: not only was the government constitutionally committed to a one-peso-one-dollar policy, but every peso in circulation was backed by a dollar of foreign exchange reserves.

Then came the crisis. In December, under the pressure of speculative capital flight, Mexico wavered: rather than defend the peso by whatever means necessary, the

country devalued its currency. As it turned out, the devaluation was enough to shatter the government's credibility but not enough to satisfy the speculators, and the half-measures quickly turned into a rout that drove the Mexican peso to half its previous value. Eventually the currency stabilised, but only after interest rates had been increased to 60 per cent.

For those who believe nothing good can come out of devaluation, it seems like an object lesson.

The shock quickly spread to Argentina: but that country refused to contemplate any change in its exchange rate. For a time it looked as if the drain of pesos out of the banking system would lead to financial collapse. But, with a lot of help from Argentina's friends, that crisis seems to have been surmounted.

For those who believe that not-

ing good can come out of devaluation, it all seems like an object lesson. Mexico gave in to the pressure to devalue; Argentina did not; and so far Argentina has had much the better of it.

But the story is not yet over. The pressures that led to the Mexican devaluation were not, ultimately, financial. Rather, they came from the real economy. Mexico's strong peso policy brought down inflation, but not at all once. By the time inflation was nearly down to US levels, many Mexican exports had been priced out of US markets. Meanwhile, the combination of the strong peso and trade liberalisation had brought on an import surge. The result was that the massive inflows of capital during the good years brought surprisingly little growth in the domestic economy, and no growth at all in employment. It was the mounting pressure to do something to improve this performance - helped by internal political unrest - that eventually made financial markets wonder whether the peso would remain strong, and brought on a currency crisis.

The point is that with the peso devalued, however messily, those have become problems of the past. Mexico's domestic economy may be prostrate, but it is already running a trade surplus and exports are surging. Within two or three years, we may be marvelling at how Mexico has, at last, become a fast-growing, export-oriented economy.

Meanwhile, Argentina has weathered the immediate storm; but the problems of a severely overvalued peso, which have made Buenos Aires one of the world's most expensive cities and hobbled attempts to develop new exports, remain unresolved. They will be as long as the credibility of the government is bound up with one peso, one dollar.

So round one has ended, and old-fashioned monetary virtue is leading on points. But I will still bet that by the end of the bout we will see, once again, that things are not that simple.

Paul Krugman

The author is professor of economics at Stanford University.

## OBSERVER

## The Groucho, king of coins

■ Passing the buck may become a thing of the past, if US Republican Congressman Jim Kolbe gets his way. He wants to abolish the \$1 bill and replace it with a coin.

Dollar coins have proved unpopular in the past. In the 1970s Americans loathed the Eisenhower dollar, a near-coaster-size coin, and the Susan B. Anthony. The first was too bulky, and the second so resembled a quarter that it produced endless confusion. Kolbe, from Arizona, a major copper-producing state, wants the new \$1 coin to be 40 per cent larger than the quarter, with a smooth edge and gold colour.

He has cost-cutting on his side. Coins cost 8 cents to mint - twice the cost of printing bills - but he argues there would be savings of \$36m annually, because coins last 30 years while bills rub out after 18 months.

But what to call it? The Hillary might spring to mind but it would quickly fade. The Newt would probably sink. As recent opinion polls suggest not more than 20 per cent of the public want a \$1 coin, it has to be named the Groucho.

Kevin, n'est-ce pas?

■ Jacques Toubon, fierce defender of the French language in his

previous role as minister of culture, will probably be mightily relieved to have shifted to a different portfolio under President Jacques Chirac.

For research from the state-funded CNRS academic network shows that France is suffering an invasion of Anglo-Saxon first names. Pauline and Laura are among the top five names for new daughters, for boys there is a clear winner. And it is... Kevin, the choice for one in every 30 male births. The French chattering classes apparently prefer more culturally-sensitive names, such as Pierre and Marie; but they are being borne down by a torrent of Kevins.

The researchers suggest the popularity of Kevin is due to it being subconsciously digested and regurgitated from US television series. Which, oddly enough, provides Toubon with further ammunition for his previous campaign to limit Hollywood imports.

The offer is carried on the back of your flight pass, and reads: "Dear passenger. Wish you have a joyful journey? When you are in public talking and laughing and drinking

and singing, living a happy life, suddenly you feel some part of your body is too itchy to endure. How embarrassing. Please dial (fax) 01-4910253, you will gain an unexpected result. Huachuan disinfect and health 2 in 1 soap can help you!"

These marketing types are getting everywhere.

Count the cost

■ We should probably expect these kinds of absurdities. The Association for the Advancement of Black Accountants of South Africa (ABASA) exists to promote black accountants' prospects. But the advent of a non-racial society means that the South African Institute of Chartered Accountants (SAICA) can't help advance black accountants' prospects. It knows who and where those black accountants are.

So - take a very deep breath - all chartered accountants in South Africa are now being asked to register according to race. Nothing to do with discrimination: in this new era, in which all are equal - but some ought to be more equal than others - it's called "redressing imbalances".

Signing off

■ While in London yesterday one old stager was signing copies of her latest book of memoirs at a

record-breaking rate of knots, across the globe another bade farewell to her political career.

At 78 years old and having spent the last 15 as prime minister of the Caribbean island of Dominica, Eugenia Charles chose not to run in yesterday's election. "It's a very different style of election this time," she said. "more noise. More lies." Always ready for an interview, she will be missed by journalists covering the region.

Charles became something of a figure in international affairs, not least because of the ups and downs over Haiti. When Leslie Manigat, was chosen by less than 5 per cent of Haiti's voters in January 1988, Charles memorably said: "Bad elections are better than no elections."

Which, come to think of it, might just as easily have sprung from the mouth of London's marathon book-signer - Margaret Thatcher.

Fat chance

■ A former sumo grand champion by the name of Chryonofuji has reportedly been assessed for ¥55m in back taxes and penalties, for failing to report ¥130m in personal income between 1990-92. "I have left everything to the tax accountants. There appears to have been a mistake," said the 40-year-old wrestler. Observer's first law of sumo wrestling holds: make sure your accountant has as large a stomach as your own.

100 years ago

Long-distance telephone service The inauguration of the telephone trunk lines of the Post Office from London to Edinburgh, Glasgow, Belfast, Dublin and other centres took place yesterday at the invitation of Mr Arnold Morley, the Postmaster-General. The Lord Mayor and other guests were present. The instruments used for the occasion were fitted up in a room in the new building in St Martin's-le-Grand. The ceremony was opened by the Postmaster-General speaking through the instruments, and expressed surprise at the distances which were being covered from such long distances. [The building in St Martin's-le-Grand in the City of London was then and is now a Post Office; the modern headquarters of British Telecommunications is nearby.]

50 years ago

Liberals win in Canada Canada has returned to power. Mr Mackenzie King's Liberal Party, but with a reduced majority in the Ottawa House of Commons, and Mr King's seat is not assured, says Reuter.



## Conservative right attacks advertising policy

Christian lobby group  
urges boycott of Unilever

By Richard Tomkins in New York

The American Family Association, an influential Christian lobbying group claiming more than 1m supporters, has urged a US boycott of goods made by Unilever, the Anglo-Dutch consumer products group, in protest at its advertising policy.

The association says Unilever is a leading sponsor of prime-time network television programmes featuring sex, violence and profanity, and that the company has ignored repeated requests for a meeting to discuss its advertising guidelines.

The full-page advertisement in the New York Times on Sunday follows a recent spate of attacks on film, television and music production companies from the conservative right.

Two weeks ago, Senator Robert Dole, the Senate majority leader and front-runner for the Republican presidential nomination, attacked Time Warner, the US entertainment group, for the violent and sexual content of some of its recent releases.

The American Family Association's advert listed several examples of US television programmes containing sex and violence - highlighting the police series *NYPD Blue* for "helping open the

That same company is the leading sponsor of the program praised for helping open the doors to sexual nudity on prime-time TV - *NYPD Blue*.

ONE ADVERTISER HELPED PAY FOR IT ALL.

That advertiser is Unilever. For many months American Family Association pleaded with Unilever to clean up its act. Several over-

doors to sexual nudity on prime-time TV - and identified Unilever as one of its main sponsors. The advertisement included a clip-out panel listing all Unilever's products in the US and urged consumers to boycott them. The association said the advertisement was the first in a campaign that would spread to newspapers across the US over the next six months.

Last year, the US market accounted for 20 per cent of Unilever's \$45.4bn worldwide sales and 19 per cent of its \$3.95bn operating profits. Yesterday Unilever had no one available for comment in London, where news of the boycott had yet to break, the shares edged up 11p to 1.255p.

Based in Tulepe, Mississippi, the American Family Association pursues a conservative Christian agenda in schools, government and the media.

In 1989 PepsiCo, the US soft

drink company, shelved a multi-million dollar advertising contract with Madonna after the association claimed the pop star of appearing in a blasphemous video. Many US companies routinely avoid advertising in programmes that the association finds objectionable.

Rev Donald Wildmon, the association's founder and executive director, said Unilever had been singled out because it was "one of the leading sponsors of sex, violence and profanity" on television. Procter & Gamble, the US consumer products group, was "a much more responsible advertiser," by comparison, he said.

"Unilever are the leading sponsors of *NYPD Blue*. They are a leading sponsor of pro-homosexual programmes. They are a leading sponsor of day-time trash shows," Mr Wildmon said.

He denied the association was trying to censor US television.

Japan and  
US fail to  
break car  
dispute  
deadlock

By Frances Williams in Geneva

A day of talks in Geneva between the US and Japan on their car dispute ended in deadlock last night, leaving further attempts to solve the row to US and Japanese leaders at the Group of Seven summit in Halifax, Nova Scotia, later this week.

Yesterday's talks, under the auspices of the World Trade Organisation, focused on Japan's complaint that US trade sanctions imposed last month on nearly 50bn of Japanese luxury cars import violate WTO fair trade rules.

US officials at the talks yesterday said there was "no sign of any agreement" between the two countries, while Japanese officials said negotiations on their broader car trade dispute could resume if the US backed down on the sanctions and its demand for numerical targets.

Mr Mickey Kantor, US trade representative, said at the weekend that the US would go ahead with sanctions on June 28 unless Japan agreed measures to open its domestic market to US cars and car parts. Tokyo says the announcement, backdating punitive tariffs to May 20, has already cost Japanese exporters over \$100m in lost business.

The dispute will be high on the agenda when President Bill Clinton and Mr Tomichi Murayama, Japan's prime minister, meet in Halifax tomorrow. More detailed discussions are likely in Washington next week.

But Mr Mike McCurry, White House spokesman, played down prospects for any progress in talks between Mr Clinton and Mr Murayama. "We don't expect any resolution of our trade and economic issues - not in Halifax," Mr McCurry said.

Both sides have refused to compromise. Japan says it will not negotiate on the substance of the dispute under the threat of unilateral sanctions and will not under any circumstances agree to US demands for numerical targets which in its view amount to managed trade.

The US says the mere announcement of trade sanctions is not illegal. Washington also claims it is entitled to act unilaterally under its own trade laws if unfair trading practices fall outside WTO rules.

Meanwhile, an independent dispute panel set up under the WTO's predecessor, the General Agreement on Tariffs and Trade, has ruled largely in Japan's favour against European Union anti-dumping duties on imports of Japanese audio-cassettes.

At a meeting yesterday of Gatt's anti-dumping committee, the EU refused Japan's request for the report to be adopted, saying it needed more time to study the complex ruling and its implications for EU anti-dumping rules.

## THE LEX COLUMN

## Remote control

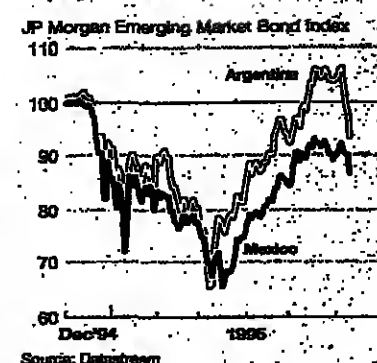
One day Mr Silvio Berlusconi wins a referendum that threatened to deprive him of most of his television empire; the next he promises to reduce his control of Italy's media. This may look contradictory but is in fact rational. Mr Berlusconi has both political and financial reasons for selling. So long as he dominates private-sector television, political opponents will lambast him for conflicts of interests. Equally, his indebted Fininvest group would benefit from a cash infusion - though exactly how much pressure he is under to raise capital is hard to say from the outside.

Winning the referendum means Mr Berlusconi can avoid a fire-sale. But he is still caught in a dilemma. One option involves selling a minority stake to a group of core investors, floating a further stake on the stock market and retaining the rest. The advantage is that Mr Berlusconi could keep effective control. The snag is that the new investors would not be willing to pay a control premium. They might, in fact, demand a discount, not least because there would still be a risk that a Berlusconi-controlled group could be disadvantaged when new media laws are drafted.

The other option of selling the entire media empire to Mr Rupert Murdoch should theoretically achieve a premium price. The problem, though, is that the former prime minister would then not even be sure of his television channels' political support. Mr Berlusconi has only to look at how Mr Murdoch is coping up to Britain's Labour party to see how risky that could be.

FT-SE Eurotrack 200:  
1446.1 (-6.2)

Bready bonds



down 11 per cent in dollar terms.

In the past week, the Nikkei has dropped 7 per cent, breaching the 15,000 barrier. It is now 62 per cent down on its 1989 peak. Another 3.5 per cent fall and the index would touch levels not seen since 1986. Even so, on fundamentals, the market is still overvalued. Further falls could bankrupt companies heavily invested in the market, creating still more problems for the banks. The Ministry of Finance yesterday admitted that it had abandoned its policy of supporting the market by buying equities. But it has yet to find a new strategy to prop up the Nikkei.

## Salomon

Salomon's climbdown on remuneration leaves it in a tight corner. After sinking into loss last year, the investment bank tied remuneration for managing directors of its customer businesses to return on equity. In an industry where people habitually receive large bonuses even when their firms lose money, Salomon's move to reduce the balance in favour of shareholders may have gone too far. But striking a better balance in its new 1996 plan will be difficult.

On the face of it, Salomon should be helped by a tougher climate throughout the industry. Investment banks are struggling to reduce staff costs after earnings plummeted last year. Many Wall Street firms have cut staff. In most jobs markets, the fear of unemployment would encourage pay restraint. This is not happening for two reasons. The first is the impending abolition of the Glass-Steagall Act, which separates commercial and

investment banking in the US. The result is that US and European banks are bidding for staff. This phase will pass. But the second reason is more fundamental: staff who have been paid millions of dollars in bonuses over a number of years think of early retirement rather than unemployment.

How serious this is depends on the overall health of the firm. Salomon is ailing and its strong trading culture makes it difficult to foster team spirit. But if it fails to find a system which ensures that shareholders will not be the only losers when the company underperforms, it will only be storing up problems for the next downturn.

## IMF

There are certainly lessons to be drawn from the crisis which brought Mexico to the verge of collapse last year. But a strengthening of the International Monetary Fund is not necessarily the right response. The Group of Seven industrialised countries will this week discuss doubling the funds available for such crises and increasing surveillance of economic policy and financial markets - a reinforcement of its traditional carrot and stick approach. But this begs the question of why, under the existing system, Argentina was able to take effective action in the face of impending disaster, while Mexico teetered on the brink.

In Mexico, the crisis hit a new government faced with a rapidly growing current account deficit and a capital market dominated by short-term foreign money. Its problems were exacerbated by the government's failure to act. Investors then lost confidence and withdrew funds, creating a downward spiral. Stricter IMF surveillance might just have encouraged the government to act faster, though the problem was not a lack of recognition of what was happening.

The more persistent headache for both Mexico and Argentina has been pressure on their banking systems - an area where the World Bank, rather than the IMF, could provide more assistance. There is probably a case for tightening IMF procedures. But giving the impression that the IMF will ride to the rescue with a newly enlarged purse may not give countries an incentive to avoid getting into trouble in the first place.

See additional Lex on Beristoff, Page 26

Last-minute takeover saves  
UK shipyard from closureBy Michael Cassell in London  
and Chris Tighe in Newcastle

Swan Hunter's main shipyard at Wallsend on Tyneside in north-east England was saved from permanent closure yesterday when it was sold for an undisclosed amount to THG Group, the offshore fabrication specialist.

The deal was concluded just 10 days after THG, which already employs 500 people at two fabrication yards at Hartlepool, submitted a bid for the yard. The sale comes a week before the yard's machinery and contents were to have been sold off at auction.

The yard, in receivership since May 1993, is to be used to build floating oil production platforms, which can exploit North Sea oil fields deemed uneconomic for fixed-platform operations.

Hopes were high last night that the deal would throw a lifeline to several hundred former ship-

yard workers, although the new owners were unable to give any estimate of jobs - involving the full range of shipyard skills - likely to be created.

The Tyne and Wear Development Corporation said it expected THG to create up to 1,000 jobs on the site. When it went into receivership, the yard employed 2,400 people - a total which had fallen to about 30 in recent weeks.

Price Waterhouse, the Swan Hunter receivers who carried out an international search for a buyer, had initially been seeking offers in the region of £5m (£7.5m) but it is thought the new owners have paid about £4m.

The rush to conclude the deal meant few details of the sale or of the new owner's plans were immediately available. THG first bid for the yard towards the end of last year but it was rejected by the receivers as being unrealistically low.

Mr Glen Wilson, THG's com-

mercial manager, said the company was confident a " hugely successful" operation would now emerge.

Mr Ed James, joint receiver, said he was delighted the international search for a buyer had been successful.

Mr Tim Eggar, UK industry minister, also welcomed the deal, which meant all three former Swan Hunter yards had been sold and would be creating jobs.

THG will negotiate with the UK Department of Trade and Industry for grant aid towards the cost of developing the Wallsend complex. Mr Eggar said the DTI had been in contact with THG but that the company had not formally applied for regional selective assistance. He said any application would be "treated on its merits".

News of the last-minute sale was warmly greeted on Tyneside, where a campaign to save the last part of the Swan Hunter yard had been mounted.

## Central bankers give inflation warning

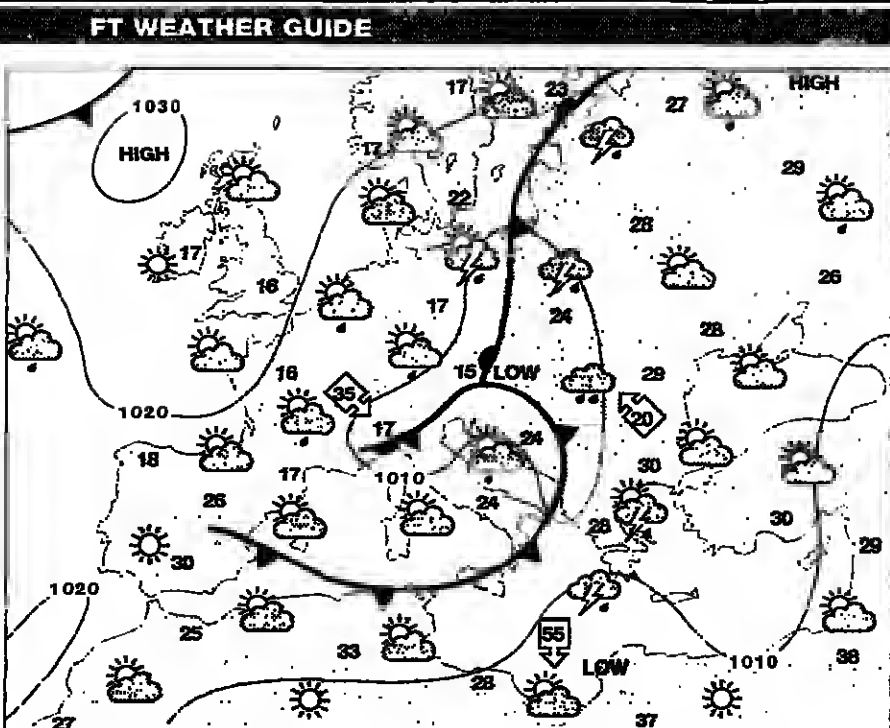
Continued from Page 1

that have been introduced in many countries mean that there is now a better chance of keeping inflation low, it warns that many

governments still have more to do to prove their anti-inflation credentials to the markets.

In particular, the BIS warned that although earnings growth had been low in the US in recent

years, there were already signs that it was picking up in European countries such as France, Germany and the Nordic bloc - in spite of continuing high levels of unemployment.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

## TODAY'S TEMPERATURES

Maximum	Minimum	Forecast	Maximum	Minimum	Forecast
Abu Dhabi	30	sun	32	17	sun
Accra	30	sun	31	17	sun
Algiers	25	sun	28	17	sun
Amsterdam	17	sun	22	17	sun
Athens	30	sun	30	17	sun
Atlanta	26	sun	26	17	sun
B. Aires	13	sun	23	17	sun
B. Nam	16	sun	23	17	sun
Bangkok	34	sun	34	17	sun
Barcelona	21	sun	21	17	sun
Bombay	30	sun	30	17	sun
Buenos Aires	26	sun	26	17	sun
Calcutta	30	sun	30	17	sun
Cairo	34	sun	34	17	sun
Cape Town	21	sun	21	17	sun
Cardiff	17	sun	22	17	sun
Casablanca	22	sun	22	17	sun
Chicago	28	sun	28	17	sun
Cologne	22	sun	22	17	sun
Dakar	27	sun	27	17	sun
Dallas	30	sun	30	17	sun
Dubai	34	sun	34	17	sun
Dublin	17	sun	22	17	sun
Durham	17	sun	22	17	sun
Edinburgh	17	sun	22	17	sun
Frankfurt	22	sun	22	17	sun
Geneva	22	sun	22	17	sun
Glasgow	18	sun	22	17	sun
Hamburg	22	sun	22	17	sun
Helsinki	22	sun	22	17	sun
Hong Kong	28	sun	28	17	sun
Indanab	28	sun	28	17	sun
Istanbul	28	sun	28	17	sun
Jakarta	34	sun	34	17	sun
Jersey	22	sun	22	17	sun
Karachi	34	sun	34	17	sun
Kuwait	34	sun	34	17	sun
Las Vegas	28	sun	28	17	sun
Las Palmas	22	sun	22	17	sun
Lima	22	sun	22	17	sun
Lisbon	22	sun	22	17	sun
London	17	sun	22	17	sun
Lucembourg	17	sun	22	17	sun
Lyon	17	sun	22	17	sun
Madrid	22	sun	22	17	sun
Manila	28	sun	28	17	sun
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Japanese life  
groups stumble

Japanese life groups are struggling to survive in a market dominated by the government's failure to act. Investors then lost confidence and withdrew funds, creating a downward spiral. Stricter IMF surveillance might just have encouraged the government to act faster, though the problem was not a lack of recognition of what was happening.

The more persistent headache for both Mexico and Argentina has been pressure on their banking systems - an area where the World Bank, rather than the IMF, could provide more assistance. There is probably a case for tightening IMF procedures. But giving the impression that the IMF will ride to the rescue with a newly enlarged purse may not give countries an incentive to avoid getting into trouble in the first place.

See additional Lex on Beristoff, Page 26

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# FINANCIAL TIMES COMPANIES & MARKETS

Tuesday June 13 1995

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## IN BRIEF Japanese life groups stumble

Japan's life insurers, among the world's largest institutional investors, reported stagnant revenues and sharply lower profits. The continuing slump in the Japanese stock market and the rise to the yen reduced returns on assets. Page 24

**Christian Salvesen nudges ahead**  
Christian Salvesen, the distribution and specialist hire group, has announced a 5 per cent rise in pre-tax profits to £7.7m (£122m) for the year to March 31. However the figures were below expectations, and the shares fell 5p to 253p. Page 26

**Australian banking in a flurry**  
Another flurry of mergers and takeovers is expected in Australian banking, with a number of assets up for sale. Page 23

**Strain on Ukraine grain**  
An early summer drought in central and eastern Ukraine threatens to depress the grain harvest again this year. Page 27

**Christiania bids for financial concern**  
Christiania Bank, Norway's second-largest bank, has launched a formal bid for Norgeskredit Holding, an emerging financial services group with estimated assets of Nkr400bn (\$4.5bn). Page 20

**Eurodollar warns of lower profits**  
Eurodollar, the car rental company which floated in July, recorded a 16 per cent rise in pre-tax profits but said profits in the first half of this year would be lower than last time. Page 26

**Renault sale moves near the starting grid**  
Renault's top managers soon hope to be on the starting grid for the full disposal of the state's 53 per cent stake. Page 20

**CNN to rival NBC on business news**  
Turner Broadcasting plans to launch a CNN Finance Network to compete with NBC's Cable News Network, which specialises in business and financial coverage. Page 22

**TSN may bid for Labatt cable arm**  
Management of John Labatt's The Sports Network (TSN) is working on a bid for the beer and entertainment group's cable system, following last week's negotiations with other Canadian broadcasters. Page 22

**Beazer Homes to buy back stake**  
Beazer Homes, the US housebuilder floated by Hanson last year, is buying back the 29.6 per cent stake still held by US Industries, the diversified business recently demerged from Hanson. Page 22

**Hertie hurts Karstadt**  
Profits of Karstadt, Germany's biggest retail group, fell sharply last year, after restructuring costs and lower sales at its newly acquired Hertie subsidiary. Page 20

**Berisford shares tumble on warning**  
Berisford shares tumbled 15 pence to 219p, as the UK kitchens group warned that growing malaise in the housing market would hold back profits in its joinery businesses. Details and Lex, Page 26

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Chief price changes yesterday		
FRANKFURT (DEM)		
Alkermes	544	+ 14
Artemis	1680	+ 18
BAA	775	+ 15
BBA Group	706	+ 12
Bellini	675	+ 15
Boeing	1120	+ 20
Bombardier	1120	+ 20
CS First Boston	1120	+ 20
Cephalon	1120	+ 20
Chiron	1120	+ 20
Chiyoda Mutual Life	1120	+ 20
Christiana Bank	1120	+ 20
Crédit Lyonnais	1120	+ 20
Dai-ichi Life	1120	+ 20
Fininvest	1120	+ 20
GE	1120	+ 20
Gilco Welcome	1120	+ 20
Globe Industries	1120	+ 20
Hanson	1120	+ 20
Hertie	1120	+ 20
Holvis	1120	+ 20
International Paper	1120	+ 20
John Labatt	1120	+ 20
Karstadt	1120	+ 20
Kia Motors	1120	+ 20
Komercijalna Banka	1120	+ 20
Leonard Green	1120	+ 20
PARIS (FFr)		
Alkermes	643	+ 13
Artemis	636	+ 11
BAA	636	+ 11
BBA Group	636	+ 11
Bellini	636	+ 11
Boeing	636	+ 11
Bombardier	636	+ 11
CS First Boston	636	+ 11
Cephalon	636	+ 11
Chiron	636	+ 11
Chiyoda Mutual Life	636	+ 11
Christiana Bank	636	+ 11
Crédit Lyonnais	636	+ 11
Dai-ichi Life	636	+ 11
Fininvest	636	+ 11
GE	636	+ 11
Gilco Welcome	636	+ 11
Globe Industries	636	+ 11
Hanson	636	+ 11
Hertie	636	+ 11
Holvis	636	+ 11
International Paper	636	+ 11
John Labatt	636	+ 11
Karstadt	636	+ 11
Kia Motors	636	+ 11
Komercijalna Banka	636	+ 11
Leonard Green	636	+ 11

## Pricing values Usinor Sacilor up to FFr23bn

By John Riddling in Paris

The French government yesterday launched the marketing for the privatisation of Usinor Sacilor, announcing a price range for shares in the steel giant of between FFr32 and FFr36 each for institutional investors.

The price range, values the steel group at between FFr20bn and FFr23bn, including a capital increase of FFr5bn. It is largely in line with market estimates for Usinor, Europe's biggest steel producer, and is expected to yield receipts of between FFr10bn and FFr12bn for the French government.

Industry observers described the price as fair. "If you take the middle of the range then it seems reasonable," said Mr Bruno Fine, analyst at Banque du Louvre in Paris. He described the pricing as relatively conservative, reflecting the decline in the stock market over the past few weeks and investors' concerns about the cyclical nature of the steel sector.

Under the timetable laid down for the sale of Usinor, the French economy ministry is expected to announce the price for institutional investors on June 26. The privatisation issue, the first by the new government, is due to be completed by the end of the first week in July.

From today, investors will be able to place non-binding orders for shares in Usinor. This pre-marketing phase will last at least 15 days, after which it can be closed with 24 hours' notice.

According to the French government, the issue will comprise an offering of 164m shares, with about 50m of the shares representing the capital increase. French and international institutional investors will be offered about 128.5m shares, while the public issue will make up the balance. In the case of strong demand from individuals, however, there is a clawback option of up to 10 per cent of the institutional allotment. The price for private investors, which will be set when the pre-marketing is complete, is expected to be at a slight discount to the institutional price.

In addition to the public issue, the government is reserving about 9.5m shares for employees and former employees of the company. These shares will be offered on preferential terms, yet to be specified.

As outlined by Mr Alain Madelin, the French economy minister, the operation will also include the formation of a group of core long-term shareholders. These shareholders will control 15 per cent of the shares.

Crédit Lyonnais, the state-owned French bank, appears close to an exclusive deal with Allianz, the large German insurance group, for the sale and distribution of non-life insurance products.

The bank, which first announced its interest in a tie-up with a insurance company for non-life insurance sales last July, is likely to make a final decision soon but is believed to favour proposals from Allianz.

The contract could prove lucrative. Crédit Lyonnais said last year it generated FFr1.5bn (\$305m) in premiums from non-life products sold through its banking network, including car, house, legal, credit card protection and mortgage protection contracts.

The bank, which refused to comment on the negotiations, said it sold non-life insurance to about 3 per cent of its clients and had plans to expand this proportion in the medium term to 10-15 per cent.

"Many studies have shown that people only want to talk to one organisation about financial and insurance products," it said.

The bank believes it could gain considerable economies of scale by moving away from its practice of using a variety of brokers for non-life products. It would charge a commission on sales and use its own name as the label for the products, but leave management of claims and premiums to the insurance company chosen.

Crédit Lyonnais has been considering offers after the failure of discussions in 1994 with Assicurazioni Generali di France, the state insurer scheduled for privatisation.

The development comes at a time when a number of French banks are beginning to expand their interests in the sale of both life and non-life insurance products through alliances with specialist providers.

The banks have a strong presence in the sale of life insurance. Together with the Post Office and the French Treasury they held 51 per cent of sales in 1993. Crédit Lyonnais sells such policies through Union des Assurances Federales, in which it holds a 51 per cent stake.

However, they have proved less effective at handling the more technical non-life products, in which they held 3 per cent of the market in 1993. In one such recent development, Société Générale, one of France's largest banks, said last month it was planning to start selling non-life products from next year.

Yesterday, Fininvest said the court had decided that owning three out of 12 national channels was unacceptable. Yet Fininvest calculates there are 15 national channels, and that, in any case, new satellite, cable and digital transmission technology will make efforts at reform redundant in the space of a few years. As Mr Confalonieri put it: "A single private entity could own 40 networks in the future, not just three."

On the question of Fininvest's debt, analysts are divided about whether the company has done enough to improve its financial position with recent restructuring and disposals.

The private company had net borrowings at the end of 1993 of about £3,800m (\$3.3bn), a target which Mr Franco Tatò, chief executive until early this year, was bent on reducing with a programme of disposals.

Net debt shrank to about £3,200m last year, helped by the sale of shares in Mondadori, the group's publishing subsidiary. The sale of the group's Eurocomercio supermarkets at the beginning of this year should reduce indebtedness by a further £600m, and plans have been laid for the flotation of a minority stake in Fininvest's profitable insurance and financial services operations, possibly next year.

Fininvest prefers to talk in terms of raising new capital, rather than simply cutting debt. Mr Confalonieri said the group was committed to bringing in new partners, such as Kirch and Time Warner, in order to benefit from their experience in advanced television and multimedia.

Indeed, now that the referendums have gone Fininvest's way, the company is again promoting a two-stage sale of its media assets, known as Project Wave. This would be a slower process than a rapid sale of one or two channels to waiting predators, and might raise less money, but it would leave Mr Berlusconi with a large minority stake in the continuing business.

The assets which Mr Berlusconi seems prepared to sell - including the three national television channels, Publitalia, and selected cinema and film interests - are already grouped together in a new holding company called Mediasset, which Fininvest claims is valued at £7,000m-£8,000m net of £1,500m of debt.

Under Project Wave, industrial partners would buy a hard core of 30-35 per cent of Mediasset, while in a second phase a further large stake would be sold on the stock market to institutional investors.

As Mr Confalonieri admitted yesterday, the Project Wave solution would get around Italian rules which prevent the sale of television channels to companies which do not already have Italian television concessions.

However, it is a solution which Mr Murdoch appears to have ruled out. He has said if he buys a television channel from Mr Berlusconi, he wants to buy 100 per cent, and then choose his own partners.

The most important factor motivating Mr Berlusconi's desire to sell is still his need to end the damaging conflict of interest between business and politics.

His failure to do so before entering politics at the beginning of last year helped undermine his premiership. If he is to fight an election in the autumn, as he wants to, then he must demonstrate that he has reduced his influence over the country's media.

Project Wave would be one way out, but it risks leaving Mr Berlusconi with the worst of both worlds. If he has to hurry to sell, he could sacrifice his negotiating advantage, but by retaining a large minority stake he would still be open to political attack. Referendums, Page 3; Editorial Comment, Page 17; Lex, Page 18

## Referendums appear to have strengthened Berlusconi's hand Fininvest takes time out before media sale

It looks as though there will be no fire sale of Mr Silvio Berlusconi's media assets, but the auction has not been cancelled.

The results of Sunday's Italian referendums mean Fininvest, Mr Berlusconi's private company, will not be compelled to sell two of its three national commercial channels, or sacrifice part of its advertising revenue.

The news could be a setback for Mr Rupert Murdoch, the Australian-born media magnate, and Prince al-Waleed bin Talal bin Abdul of Saudi Arabia, who have emerged as the two rival candidates to buy part of the former Italian prime minister's media empire.

The results seem to give Mr Berlusconi and Fininvest's managers a stronger negotiating position, and more time to plan disposals and even to fight off investigations into alleged bribery and corruption at the group.

Mr Berlusconi and Mr Fedele Confalonieri, his friend and chairman of Fininvest, made clear yesterday they would press ahead with sale plans.

Mr Berlusconi repeated that he was ready to give up a majority stake in Fininvest's television interests. At the same time, Mr Confalonieri told journalists that negotiations were still open with Mr Murdoch and with Prince al-Waleed, who leads a consortium which includes Kirch, the German television and publishing group, and Time Warner of the US.

A decision on which route to choose could be taken "within a few weeks", Mr Confalonieri said. It should come as no surprise that Mr Berlusconi still wants to sell, in spite of winning the support of the Italian people in Sunday's referendum for continued ownership of three television channels. From the outset, Mr Berlusconi's ownership of Fininvest has been under pressure from three different directions:

- General calls for reform of the Italian television industry.
- The need to reduce Fininvest's debt and restructure the group's media interests to meet new market demands.
- Political attacks on the conflict of interest between Mr Berlusconi's political and business ambitions.

The referendum proposal was only a clumsy beginning to reform of the media sector, and the removal of the threat of summary asset sales has not ended the debate. Indeed, Fininvest must still challenge a constitutional court judgment in January, which was widely interpreted as obliging the company to sell one of its three channels by 1996.

Yesterday, Fininvest said the court had decided that owning three out of 12 national channels was unacceptable. Yet Fininvest calculates there are 15 national channels, and that, in any case, new satellite, cable and digital transmission technology will make efforts at reform redundant in the space of a few years. As Mr Confalonieri put it: "A single private entity could own 40 networks in the future, not just three."

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Fininvest prefers to talk in terms of raising new capital, rather than simply cutting debt. Mr Confalonieri said the group was committed to bringing in new partners, such as Kirch and Time Warner, in order to benefit from their experience in advanced television and multimedia.

Indeed, now that the referendums have gone Fininvest's way, the company is again promoting a two-stage sale of its media assets, known as Project Wave. This would be a slower process than a rapid sale of one or two channels to waiting predators, and might raise less money, but it would leave Mr Berlusconi with a large minority stake in the continuing business.

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As Mr Confalonieri admitted yesterday, the Project Wave solution would get around Italian rules which prevent the sale of television channels to companies which do not already have Italian television concessions.

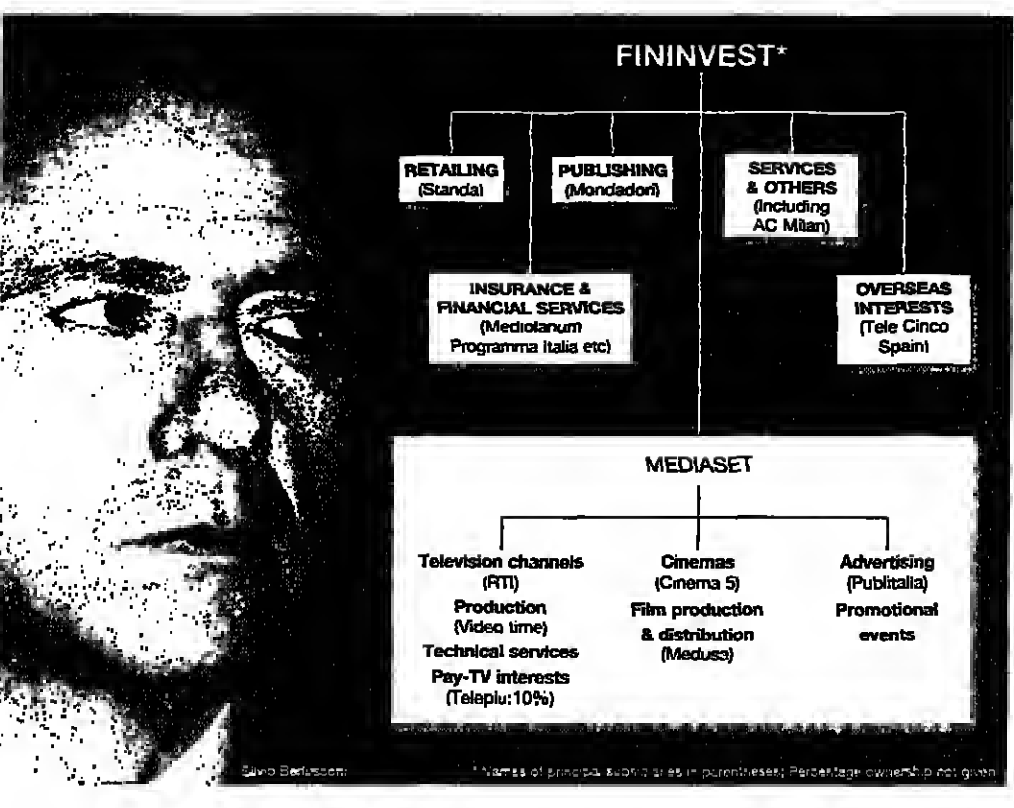
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## INTERNATIONAL COMPANIES AND FINANCE

## Turner to launch business network

By Raymond Snoddy

Turner Broadcasting and NBC seem to be shaping up for more intense competition in the cable and satellite information business in the US.

Mr Ted Turner, president of Turner Broadcasting, has announced that it plans to create a CNN Finance Network to add to the 24-hour CNN news channel and Headline News produced out of the same headquarters in Atlanta, Georgia.

The new Financial Network,

which will compete with NBC's Cable News Network, is scheduled for launch in January.

It will be carried as part of CNN International, which Turner Broadcasting started relaying into the US six months ago as a niche channel. It has done better than expected, and is already available in 3m to 4m homes.

The new financial segment will run from 7am to 7pm, but will not be carried on CNN International outside the US.

The development of the new

service will be overseen by Mr Lou Dobbs, executive vice president of CNN Business News.

The organisation already generates business news from 30 US and international bureaux, and it was seen as simply a good business decision to make greater use of it.

There are no plans to extend the service to the rest of the world.

In response to the Turner announcement Mr Bob Wright, president of NBC, said it suggested that cable operators

were interested in more news and information. If cable operators had that interest and capacity NBC would welcome the opportunity to provide an additional service.

"In fact, based on preliminary conversations with cable operators, we cannot seem to find operator interest in adding a second business service," Mr Wright said.

"But we think there will be a lot of operator support for a broad-based news channel, which we will explore with them."

## Buy-out attempt at Labatt TV subsidiary

By Robert Gibbons in Montreal

Management of John Labatt's The Sports Network (TSN) is working on a bid for the beer and entertainment group's cable system, following last week's negotiations with other Canadian broadcasters.

TSN is one of the non-brewing assets being auctioned off following the US\$22m takeover of Labatt by Interbrew of Belgium. The non-brewing assets include broadcasting interests, baseball and football teams, and 48 per cent of the Toronto SkyDome, together worth an estimated C\$18m (US\$72m).

Houston Sports Network (ESPN) said it is among several groups working with TSN management on the potential bid. Others include Claridge, the Montreal Canadiens' holding company, and also North-West Entertainment, owner of the Vancouver Canucks National Hockey Club.

Canadian interests would represent 70 per cent control - foreign interests are limited to 30 per cent voting control of a Canadian broadcaster.

Acquisition of TSN would require regulatory approval. Doma Productions, a Labatt Communications unit, would be part of the deal.

TSN went on the air in 1984 and owns rights to broadcast National Hockey League, Canadian Football League and major league baseball.

Last week CanWest, the Winnipeg-based broadcast group which is part of a consortium bidding for the UK Channel 5 TV licence, confirmed it is interested in Labatt's broadcasting assets, worth an estimated \$600m.

Other potential bidders include WIC Western, owned by the Griffiths family, and two eastern Canada broadcast and film groups, Astral Communications and Alliance Communications.

## Swiss groups' cross-selling accord extended

By Ian Rodger in Zurich

Swiss Bank Corporation and Zurich Insurance are extending their three-year-old partnership for selling each other's products in the Swiss market, thus putting an end to speculation that relations between the two were not good.

From next year, Zurich will offer property, liability and accident insurance at selected SBC locations in addition to the life assurance and pension plans already offered.

Zurich customer representatives in return will refer their customers to SBC for a range of retail banking services. Until now they have offered only SBC investment trusts.

Zurich's recent finance buys, its purchase last September of Rüd. Blass & Cie, a Zurich private bank, and its agreed bid for the Kemper financial group in the US, raised questions about the progress of the big insurer's tie-up with SBC.

## NEWS DIGEST

## Profits warning wipes \$800m off Rubbermaid shares

Shares in Rubbermaid, the houseware manufacturer ranked as America's most admired corporation for the past two years, continued to fall yesterday after a profits warning on Friday. The shares have lost 16 per cent of their value, or \$800m in aggregate, in the past two trading days, writes Tony Jackson in New York.

Rubbermaid said on Friday that second quarter earnings would be lower than analysts' estimates, in "the low teens to high 20s" cents per share compared with 35 cents last year. It now expected full-year earnings to be \$1.30 to \$1.35, compared with \$1.42 after exceptional gains last year.

The company blamed further sharp price rises in the basic plastics which form its chief raw material. Rubbermaid products include plastic washing-up bowls, rubbish bins and children's toys. Prices of some plastic resins have doubled in the past year, and Rubbermaid said resins prices in its own products had reduced sales volume.

The company said it expected price increases to moderate in the second half of the year and unit volume to pick up. US chemical industry executives expect bulk plastics prices to fall in the second half as a result of new capacity coming on stream at the year end.

Rubbermaid came top in Fortune magazine's Corporate Reputation survey in 1993 and 1994. The shares fell 8 1/2% yesterday to \$25.

## Mafatlal arm to take stake in Tripura Gas

Gujarat Gas, part of the Mafatlal group, has signed a memorandum of understanding to take a 78 per cent stake in Tripura Natural Gas, reports Reuter from Bombay.

Tripura Gas distributes natural gas in Agartala, capital of India's north-eastern state of Tripura.

Gujarat Gas said the Tripura Industrial Development Corp and the Assam Gas Co would each retain an 11 per cent stake.

Gujarat Gas currently distributes natural gas by pipeline in several cities in the western state of Gujarat.

Gujarat Gas said the deal would help promote use of the north-east's gas resources by encouraging gas-based industries to set up near Agartala.

## Varian to sell electron devices subsidiary

Varian Associates said it will sell its electron devices business to Leonard Green & Partners for about \$200m in cash, plus the assumption of certain liabilities, reports Reuter from California.

The company said the sale was made on behalf of its equity fund, Green Equity Investors II.

The units being sold are located in Palo Alto, San Carlos, and Santa Clara, California; Beverly, Massachusetts; and Georgetown, Ontario. They together employ about 1,700 persons.

## Australian acquires Toronto bus maker

Australian entrepreneur Mr Terence Peabody, 55, is attempting his second company rescue in Canada with the purchase of a struggling Toronto bus maker, writes Robert Gibbons.

In 1981, Mr Peabody acquired Western Star, a moribund Vancouver heavy truck builder. He revamped the plant, overhauled management, cut costs and moved Western Star into international markets. He took the company public in May 1994 at C\$11.50 a share - it now trades at almost C\$19.

For the nine months to March 31, the company earned C\$32.5m (US\$23.6m), or C\$2.92 a share, on sales of C\$335m, against C\$12.5m or C\$1.52 on sales of C\$281m a year earlier. The order book stands at 3,300 trucks.

Now Mr Peabody has bought Ontario Bus Industries, a failing city bus builder in Toronto for C\$35m. It was once Canada's biggest city bus builder but production has dwindled and

most of the 1,200 employees have been laid off. Mr Peabody, who divides his time between Australia and Canada, has renamed the company Orion Bus, and will set about revamping its operations. The plant takes almost twice the normal number of worker hours to produce a bus, he said.

Western Star's engineering and manufacturing skills will be applied to Orion's new assembly operation. By the year-end the workforce will be 600 in Toronto and 450 in Oshkosh, New York, where finishing is done to qualify as US sales under Buy-America rules.

Orion should be working up to annual output of 1,000 buses in early 1996. The Ontario government invested C\$15m in Orion, convertible into a 25 per cent equity stake. Ontario cities will be pressed to channel orders to Orion - city buses carry a 75 per cent subsidy.

## SA glass maker ahead to R210m for year

Plate Glass & Shatterproof Industries, the South African glass and board products manufacturer, said it expects continued growth in earnings in the current financial year, but much depends on domestic market productivity improvements and the country's housing drive, reports Reuter from Johannesburg.

Mr Ronnie Lubner, chairman, said in his annual review that drought in Zimbabwe and social political uncertainty in South Africa were "further impediments".

The company increased attributable earnings to R210m (\$71.6m) in the year ended March 31 from R159m in 1993-94, and declared a dividend of 250 cents for the year, against 230 cents.

Mr Lubner said benefits from its re-engineering exercise in its major domestic manufacturing divisions had started to flow, but the full effects would only be seen on future earnings.

Its Glass SA's capacity requirements were increasing rapidly and the company had brought forward its plan for a second float glass manufacturing line, to be completed before the turn of the century, he said. A viability study is still under way.

Improved productivity and further capital investment in the automotive business would also enable the division to pursue export opportunities more vigorously.

At its BG Bison division, some R120m had been committed to capacity upgrades at existing plants to date, he said.

## Scott Paper divestment programme on target

Scott Paper, the US tissue maker, said it expects to meet its target of \$3bn in asset sales by the end of 1995, reports Reuter from Philadelphia.

With the closing of the sale of its 20 per cent interest in a pulp mill and timberland acreage in Chile to Empressa CMPC, Scott said it has now announced \$2.4bn in sales.

The \$11m sale to Empressa marks the first sale of Scott's pulp operations and timberlands. Scott formally began its push to divest itself of its pulp sector on May 1 1995.

The divestment programme was launched last October in order to eliminate debt and reposition Scott Paper as a pure consumer products company.

## Bombardier steps up aircraft production

Bombardier, the Canadian aerospace and transport equipment group, is raising the production rate of its 50-passenger Regional Jet from four to five per month and of the Dash-8 turboprop from three to four a month from September/October, writes Robert Gibbons.

Bombardier has 116 Regional Jet firm orders with 67 delivered, and 443 Dash-8 orders, with 401 delivered. Air Canada is converting 14 Regional Jet options to firm orders, while Bombardier is also going ahead with a 70-passenger Dash-8-400.

## Bombay Dyeing almost doubles to Rs980.9m

Bombay Dyeing & Manufacturing, India's leading textile and petrochemical company, reported net profits of Rs980.9m (\$31.22m) for the year ended March 31, a 92 per cent advance on the previous year, reports AP-IM from Bombay.

The company attributed its improved performance to the increased revenues from its petrochemical division.

Total revenue rose 78 per cent to Rs11.2bn, while pre-tax profit increased to Rs1.1bn from Rs511.7m. The dividend is up 38 per cent to Rs5.5.

## Beazer Homes buys back shares

By Maggie Urry in New York

Beazer Homes, the US house-building group floated by Hanson last year, is buying back the 29.6 per cent stake still held by US Industries, the diversified business recently demerged from Hanson. The total cost will be between \$41m and \$47m.

Beazer Homes, chaired by Sir Brian Beazer, has bought in shares at \$16 each, and paid US Industries \$500,000 for an option to buy the remaining 1.749m shares at a price between \$14 and \$17.50. Beazer Homes has until the end of

September to exercise the option but aims to do so earlier than that.

The price compares with a market price of \$16 at Friday's close. To finance the purchase, Beazer is planning to issue \$45m worth of convertible exchangeable preferred stock. Mr David Weiss, chief financial officer of Beazer Homes, said that the initial 1m shares had been bought using borrowings which had a short-term negative affect on the balance sheet.

However, when the preferred stock issue is completed, and depending on the price paid for

the balance of the shares, the group's finances should be the same or slightly better.

US Industries said the deal was part of its strategy of deleveraging its balance sheet following the demerger. The group said last Friday it was looking to sell its 48 per cent stake in Smith Corona, the typewriter maker, although this is not expected to raise much since Smith Corona is in technical default of its loans.

US Industries' interests include Jacuzzi baths, Ames Tool, Ertl Toys, Rexair vacuum cleaners, USI Automotive and Tommy Armour Golf.

All of these securities having been sold, this advertisement appears as a matter of record only.

35,905,000 Shares

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Common Stock  
(par value \$.001 per share)

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Credit Lyonnais Securities

Deutsche Bank

Internationale Nederlanden Bank N.V.

Kleinwort Benson Securities

Société Générale

Sumitomo Finance International plc

UBS Limited

28,724,000 Shares

This portion of the offering was offered in the United States by the undersigned.

Goldman, Sachs &amp; Co.

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Euro Medium Term Notes Due June 28, 1999 ("Notes")  
(Common Code 5008123, ISIN Code XS005008123-0)

Notice is hereby given, in accordance with conditions 1(c) and 14 of the Terms and Conditions of the Notes as set out in the Information Memorandum of the Euro Medium Term Programme dated December 16, 1994, and the relevant Pricing Supplement, that the Issuer intends to redeem all of the Notes at a price of 100% on the Call Option Date, June 28, 1995.

June 13, 1995, London  
By: Citibank, N.A. (Issuer Services), Agent Bank

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## INTL COMPANIES

## Australian banking poised for a facelift

BankSA sale may be first in a wave of consolidation, writes Nikki Tait

For months there has been market talk of a flurry of mergers and takeovers in Australian banking. Now, with this month's news that Advance Bank, a Sydney-based regional, plans to acquire the Bank of South Australia from the state government for A\$780m (US\$582m), the speculation seems to be turning into reality.

The first, and simplest, reason for expecting another wave of consolidation is that a number of assets are up for sale. BankSA itself represented the saleable rump of the former State Bank of South Australia, a high-flying and ambitious institution in the late 1980s which crumbled under multi-billion dollar losses in the early 1990s.

The state government sought between A\$500m and A\$750m from the restructured assets, and has comfortably achieved its target. In Perth, meanwhile, the western Australian government is debating what to do with BankWest, another state-owned bank hauled back from losses in the late 1980s, whose sale could yield more than A\$750m for state coffers.

Challenge Bank, a smaller local bank, offered to buy BankWest last year, but management at that stage indicated that it would prefer the institution be privatised via a stock market flotation. Since then, the authorities have pursued the trade sale and flotation routes concurrently. The first round of trade bids closed earlier this month but the stock market option has still not been ruled out.

The second catalyst for more consolidation in Australian banking is commercial. Bank margins are expected to come under increasing pressure, making the need to maximise cost-efficiency paramount. Many of the regional banks are oriented towards mortgage lending. But a slow recovery in business lending in Australia and corporate clients' preference for funding expansion from cash-flow or via a direct tapping of the capital markets, has meant that home loans have become the focus of an intense marketing push by the

regionals, says one analyst, adding that the need to invest in increasing sophisticated technology will compound the logic.

Perhaps the most intriguing question is whether a fresh wave of consolidation would mean that the "big four" national banks - National Australia Bank, Westpac, ANZ and Commonwealth - got bigger or whether a class of "super-regionals" emerged. It is here that the Advance deal sprung a surprise. Most observers thought the bank would be sold to Westpac, which could then achieve cost-savings through branch rationalisation and the like. Instead, Advance - which has minimal

**Margins are expected to come under pressure, making the need to maximise cost-efficiency paramount**

bank overlap with BankSA - won the auction.

This has prompted some analysts to speculate that the Sydney-based institution overpaid. Mr Jim Service, Advance's chairman, has said not - arguing for the concept of "families of banks", whose individual members reflect the different needs of their states/communities. More specifically, Advance has said that earnings per share should be maintained this year in spite of the deal, and enhanced thereafter.

In general, however, the jury seems to be out. Moody's, for example, confirmed ratings for both institutions, but said "merging systems and rationalising branch networks while protecting market share in South Australia, will be a challenge for management". However, it added: "If potential benefits of the merger are realised, upward rating pressure could eventuate over the medium-term."

As for future deals, both regionals and nationals remain in the hunt.

Westpac, although tight-lipped about specific situations, has made little secret of its appetite for assets generally. Moreover, the national banks are comfortably - some would say excessively - capitalised, with capital ratios well above statutory requirements.

However, St George, a fierce regional competitor to Advance in the crowded New South Wales market and would-be bidder for BankSA, is thought unlikely to rest on its laurels. Challenge, meanwhile, continues to canvass support for the BankWest deal.

Finally, there is the question of the speed at which any reshaping of the Australian banking sector might occur. Many remember the events of the early 1980s when the sector's profile changed dramatically in a matter of weeks following ANZ's bid for Bank of Adelaide. Over the next 12 months, the number of big banks fell by a third and the Westpac and NAB structures were created.

However, some analysts are wary of predicting a repeat scenario, especially if there is no compelling reason for the boards and management of target banks to yield up their jobs. "The speculation that this is going to be truncated into a very short timetable has probably been overdone," says Mr John Hobson, analyst at ANZ McCaughey. "You could get a catalyst, but it's probably unlikely."

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All of these securities having been sold, this announcement appears as a matter of record only.

# New Issue

893,027,000 Class H Ordinary Shares



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Oriental Patron Asia Limited

Standard Chartered Asia Limited

Swiss Bank Corporation

S.G. Warburg Securities Asia

## SARAKREEK HOLDING N.V.

Amsterdam

Notice is hereby given that an Extraordinary General Meeting of Shareholders of Sarakreek Holding N.V. will be held on Monday 20th June 1995 at 11 am at the RAI Congrescentrum, Europaplein 6, 1078 GZ Amsterdam.

The agenda includes:  
Proposal to further postpone the establishment of the 1994 Annual Report & Accounts  
Proposal to approve an investment agreement with a private US investment fund.  
Proposal to amend the Articles of Association.  
Proposal to reduce the par value of the shares from Dfl. 25,- to Dfl. 0.05 in order to enable the issuance of new shares.  
Proposal to designate the Supervisory Board to be the competent body to issue shares and to acquire shares.  
Miscellaneous.

The complete agenda for this meeting together with information memorandums concerning the investment transaction, the amendment of the Articles of Association and the reduction in par value and the complete text of the proposed Articles of Association are available and can be obtained at:  
the Company's head office, Amstelplein 194, 1079 LK Amsterdam  
(PO Box 7296, 1007 JG Amsterdam)  
and also at the ABN AMRO Bank N.V., Herengracht 397, Amsterdam  
To be able to attend the meeting, shareholders must deposit their shares at the offices of the above-mentioned bank not later than 19th June 1995. The deposit receipt will render entrance to the meeting.

The Supervisory Board

Amsterdam, 13th June 1995

## APPOINTMENTS ADVERTISING

appears in the UK edition every Wednesday & Thursday and in the  
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## INTERNATIONAL COMPANIES

# Stock market slump takes toll of Japan's life groups

By Gerard Baker in Tokyo

Japan's financial troubles were amplified yesterday when the country's life insurers, among the world's biggest institutional investors, reported stagnant revenues and sharply lower profits amid rapidly diminishing yields on their assets.

The continuing slump in the Japanese stock market, combined with the rise in the yen to reduce returns on domestic stocks and all categories of overseas investment in the year to the end of March.

Most of the leading companies revealed that they are now generating yields on their main assets - securities - far below the level of their liabilities in the form of life insurance policy dividends.

Their weak financial position suggests they will be forced to continue a strategy of retrenchment from riskier assets, a process that will weigh heavily on both the Japanese stock market and the currency.

The eight leading companies, which between them have assets totalling more than ¥135,000bn (\$1,522bn), reported a 31 per cent fall in recurring profits, their return from ordinary operations.

More important, while total

assets continued to grow, by 6 per cent, the average return on their securities investments fell sharply, by 1.05 percentage points to 2.78 per cent.

The poor performance was reflected at home and abroad. The Nikkei index of 225 leading stocks fell by more than 15 per cent in the year to March. At the same time, the yen rose more than 15 per cent, more than wiping out any gains made on foreign stocks and bonds.

Industry analysts estimate that the insurers have an average annual rate of interest on their liabilities of about 4.5 per cent. Returns on investments are now well below that figure.

In order to maintain solvency, the companies have been forced to supplement their returns on investments with special gains from early surrender of policies and lower-than-expected mortality costs. But they have also had to cut the dividends they promise to new investors and raise premiums, developments likely to weaken demand for their products and further undermine their long-term prospects.

The companies all invested heavily in securities at home and abroad in the boom years of the 1980s. As the stock market soared they were able to offer their policyholders ever

larger payouts. But when the market began its precipitous descent in 1989, their returns began to decline sharply. That process has continued and has been exacerbated in the last year by the sharp rise in the yen, which has reduced the value of the revenue from overseas assets.

Life insurers are now locked into a downward spiral. Their diminishing ability to meet liabilities requires them to opt for safer investments - yen-denominated fixed interest assets - liquidating their holdings of domestic stocks and foreign currency securities in the process. However, that process is contributing further to the slide in equity prices at home and the surge of the yen abroad, which in turn further undermines their financial strength.

So far this year, insurance companies have been net sellers of more than ¥2,500bn in assets. In the last week alone, heavy selling pressure by the insurers has contributed to a 7 per cent decline in the Nikkei index, which resumed its slide yesterday.

At the same time, in announcing their asset allocation plans for the current financial year, they have demonstrated a growing aversion to overseas assets.

JAPAN'S LIFE INSURERS: YEAR TO MARCH 1995 (¥ bn)

	Total assets	Change on year (%)	Premium revenue	Change on year (%)	Recurring profit	Change on year (%)	Investment yield (%)	Change on year (%)
Nippon	36,681.1	+5.7	5,692.3	-2.2	233.5	-13.8	2.94	-0.54
Dai-ichi	26,009.0	+8.2	4,083.5	+1.2	106.5	-50.0	2.84	-0.42
Sumitomo	22,528.4	+5.3	3,864.8	+2.2	184.3	-7.5	3.18	-0.73
Aiwa	11,751.2	+6.2	1,959.9	+2.0	49.2	-6.5	3.25	-0.75
Meiji	15,691.9	+5.6	2,621.1	+1.3	60.0	-32.3	3.29	-0.87
Mitsui	9,690.4	+4.7	1,884.9	+1.3	5.1	-86.3	2.00	-1.51
Yasuda	8,733.9	+6.8	1,652.3	+0.9	48.1	-11.2	3.32	-0.80
Chiyoda	8,396.2	+1.3	1,108.2	+8.7	-41.1	-	1.31	-2.94

\* before extraordinary items and tax

Source: company reports

# Rieter takes over Globe for \$160m

By Ian Rodger in Winterthur

Rieter, the Swiss textile machinery and motor components group, is buying Globe Industries, a Chicago-based supplier of noise control components for the North American motor industry, for \$160m.

Rieter said the move, which is subject to the approval of US anti-trust authorities, was a decisive step in its strategy to become a global supplier of insulation and interior trim parts for vehicles.

It already has a strong position in European markets through its Unikel subsidiary, and has a joint venture in Japan with Nihon Tokushu Toriyu (Nittoku).

Globe, a family-owned company, is the biggest supplier of noise and vibration control

products to the North American motor industry, with annual sales of \$260m and a workforce of 2,100 at 12 plants in the US and Canada.

It also has a joint venture with Nittoku and two other Japanese companies for supplying Japanese motor company factories in the US.

Mr Hans Wilmer, Rieter's finance director, said the acquisition would be two-thirds financed from the group's own liquidity, with the vendors taking notes for the remainder. The purchase price was equivalent to about 7.5 times Globe's forecast 1995 earnings before interest and taxes, and no dilution of Rieter earnings was expected.

Globe's management team, except for the chief executive who was retiring, would remain in place.

# Kia Motors gains control of telecoms group

Kia Motors, South Korea's second biggest vehicle maker, said it had branched out in the telecommunications sector by buying a controlling stake in a domestic telecom company, Union System Corp, Rieter reports from Seoul.

Kia said its Motors unit and affiliate Kia Precision Works had paid a total of Won4.3bn (\$5.78m) to increase their combined stake in Union to 49 per cent from 19 per cent.

The telecom unit would focus mainly on the trunked radio system, an advanced wireless phone system, Kia said. It would also be responsible for the integration of computer networks linking Kia companies. Kia said it planned to form a consortium with some 40 companies to bid for the right to develop the nation's second TPRS project.

## MONTEDISON

### NOTICE OF A GENERAL MEETING OF SHAREHOLDERS

Shareholders of Montedison S.p.A. are hereby convened to attend a General Meeting of shareholders, to be held at Foro Buonaparte 31, Milan on June 27, 1995 at 10.30 A.M. (first call) and, if needed, on June 28, 1995 (second call), same time and place, in order to discuss and vote upon the following items on the agenda:

1. Report of the Board of Directors on the Company's operations for the 1994 fiscal year. Company accounts at December 31, 1994. Report of the Board of Statutory Auditors.
2. Determination of the number and appointment of directors.
3. Change in the terms of the remuneration of the independent auditors for the fiscal year 1994 pursuant to D.P.R. n. 136 of March 31, 1975; relevant decisions.
4. Appointment of the Board of Statutory Auditors for the years 1995/1997 and determination of compensation.
5. Settlement between the Company and some of the former directors concerning the Company's claim for damages pursuant to article 2393 of the Civil Code.

Shareholders are entitled to attend the General Meeting if, at least five days prior to the General Meeting (excluding from the computation the day of the Meeting), they have deposited their share certificates at the Company's registered office or at one of the following financial institutions:

In Italy: Monte Titoli (for certificates deposited with the same), Credito Italiano, Banca Commerciale Italiana, Istituto Bancario San Paolo di Torino, Banca di Roma, Cassa di Risparmio delle Province Lombarde, Banca Nazionale del Lavoro, Banco di Napoli, Monte dei Paschi di Siena, Banco Ambrosiano Veneto, Banca Mercantile Italiana, Banca Nazionale dell'Agricoltura, Banca Popolare di Milano, Banca Popolare di Novara, Credito Romagnolo.

Abroad (by appointment of Italian banks according to the Italian law): In Switzerland: Société de Banque Suisse - Basel and Zurich, Union de Banques Suisses - Zurich, Banca della Svizzera Italiana - Lugano.

In France: Banque Nationale de Paris - Paris, Banque Paribas-Paris, Société Générale - Paris

In United Kingdom: Morgan Guaranty Trust Co. - London.

In Belgium: Banque Bruxelles Lambert - Bruxelles.

In Germany: Deutsche Bank, Dresdner Bank - Frankfurt a/Main.

In The Netherlands: ABN-AMRO N.V. - Amsterdam and Rotterdam.

In U.S.A.: The Bank of New York - New York.

On behalf of the Board of Directors  
The Managing Director (Enrico Bondi)

THE COMPANY'S FINANCIAL STATEMENTS TO BE APPROVED AT THE MEETING ARE AVAILABLE, UPON REQUEST, FROM MONTEDISON S.p.A., Foro Buonaparte 31, 20121 Milan, Italy - Attn. Mr. G.C. Scaramelli (Tel. 0039.2.6270.5061).

### PROCEDURES TO BE FOLLOWED BY FOREIGN SHAREHOLDERS:

(A) Shareholders wishing to attend must request in writing or by telex that the bank where their shares are deposited issue an admission ticket. If that bank is one of Montedison's above-listed depositary banks, if the bank where their shares are deposited is not one of Montedison's depositary banks, they must request that bank to contact one of the depositary banks so that an admission ticket can be issued. All admission tickets must be issued at least five days before the General Meeting.

(B) Shareholders wishing to vote by proxy may appoint a proxy only after depositing their shares and receiving the admission ticket in accordance with the procedures described in (a) above. Proxies are to be in writing and cannot be issued to banks, members of the Board of Directors, Statutory Auditors and employees of Montedison and its subsidiaries. Please Note: Shareholders may contact the foreign branches of the above-listed Italian depositary banks to expedite these procedures.

Montedison S.p.A. - Registered Office in Milan at Foro Buonaparte n. 31  
Share Capital L. 6.058.945.057.000 fully paid in Court of Milan  
Register of Companies no. 310653







## COMPANY NEWS: UK

# European rise offsets US fall at Salvesen

By Geoff Dyer

Christian Salvesen, the distribution and specialist hire group, which last year reported its first drop in annual profits since the 1970s, yesterday announced a modest return to profits growth.

However the figures were below analysts' expectations, leading the shares to drop 7p to 253p.

Pre-tax profits increased 5 per cent from £74m to £77.7m (£122m) in the year to March 31. This excluded an exceptional profit of £28.9m from the sale in March and April of its light, concert lighting and pollution control businesses. These businesses contributed £2.1m to operating profits.

The pre-exceptional figure was lifted by a one-off £2.5m profit from the unwinding of

interest rate swap contracts.

Group turnover advanced by 16 per cent to £646m (£558m). The European distribution division improved operating profits by 23 per cent to £36.9m.

Mr Chris Masters, chief executive, said that the division had won £37m of new business over the year, around half from industrial customers including Lucas, Pirelli and ICI. Although distribution margins in Europe were not rising, there was no longer "massive margin pressure".

Profits from US distribution fell 15 per cent to £12.8m (£8.1m) due to margin pressure and problems at the site in Buffalo, New York. Aggreko reported a 2 per cent drop in profits to £25.7m because of a poor performance in Germany.



Chris Masters: no longer 'massive margin pressure'

# French purchases behind Chamberlain Phipps' rise

By Patrick Harverson

Chamberlain Phipps, the shoe materials and footwear group, reported maiden annual results showing sharply higher profits in the wake of improved margins, strong export growth and the first contribution from several key acquisitions.

Pre-tax profits jumped from £4.4m to £12.4m (£20m) for the year to April 1, while turnover climbed to £139.4m (£77.2m). Mr Dan Sullivan, chairman,

said that, on a like-for-like basis, pre-tax profits for the year rose by 23 per cent to £13.2m, against £10.7m.

The figures were boosted by a one-off consultancy fee of £1m earned on the acquisition of a footwear company by a venture capital group.

Mr Sullivan described current trading conditions as similar to a year ago, with the UK market remaining soft due to a subdued retail sector and orders in the company's all-in-

portant French market failing to match the strength shown at the start of the spring/summer season.

The footwear business saw turnover advance from £28.9m to £101.3m and operating profits from £2.7m to £10.2m as the results of the 1994 French acquisitions, Groupe SAC and Thierry, were included for the first time, along with a modest contribution from Knapp, the US industrial shoe company purchased in January.

# Bakyrchik sees end of delays

Mr David Hooker, chairman of the loss-making Bakyrchik Gold, said yesterday: "It has been damn tough over the past nine months but the problems have now been sorted out," writes Kenneth Gooding.

He was speaking after the company reported a loss of \$3.5m for the year to March 31, against a loss of \$35,000 for the 11 months to March 31 1994.

Commissioning the plant to process the complex ore at the mine in north-eastern Kazakhstan has taken longer and cost more than expected. Mr Kevin Foo, chief executive, said the delay was between seven and nine months and the cost between \$6m and \$8m.

The joint venture, of which the Kazakh government holds 60 per cent, remained optimistic the plant would achieve

output of 30,000 troy ounces a year after it was handed over by the engineering contractor later this month.

Trail mining had started after a feasibility study indicated an underground project generating 255,000 ounces a year would be viable. This would cost \$100m, said Mr Foo, but Bakyrchik would not be seeking more money from shareholders.

# Oriflame ahead 13% and seeks growth in India

By David Blackwell

Good performances in Latin America, and southern and eastern Europe lifted profits by 13 per cent at Oriflame International, the door-to-door cosmetics group.

Pre-tax profits rose from £14m to £15.8m (£25m) for the year to the end of March.

Mr Robert af Jochnik, chairman, said the most exciting prospect was a move into India this year. "Our feeling is that India will be one of the major direct sales markets in the world. If we do a good job the potential is tremendous - it could be far bigger than what we are selling in total now."

He is aiming for 100,000 agents in India over the next three years. The group's total number of agents last year grew from 71,639 to 80,022.

The move into India reflects the group's interest in emerging markets, which it feels offer real scope. Four years ago

it founded Oresa to sell in the eastern European market, but took only a 25 per cent holding as it was regarded as a risky venture. However, last year Oresa doubled its number of agents to 100,000.

Oresa's contribution to Oriflame last year was £5.8m (£5.1m). The associate's profits were 20 per cent higher at £10m.

Although group sales fell from £86.7m to £81m, sales from direct marketing were unchanged at £64.1m. Of the remaining sales, £11.7m was contributed by Aco Hud, the Swedish toiletries brand. Hallbergs, the last remaining interest in jewellery, was sold half-way through the year; it contributed £5.2m - less than half the amount for the previous year.

Mr af Jochnik said direct-marketing sales were flat because of the closure of the French business and a decline in the UK, which had undergone a £900,000 restructuring.

# Paterson Zochonis Polish buy

By Christopher Robinson in Warsaw

Paterson Zochonis, the soap and cosmetics manufacturer which owns Cussons, is paying \$7.6m for a 75 per cent share in Poland's Pollena Uroda factory in Warsaw.

Under the terms of the deal, signed yesterday, Paterson Zochonis is to invest a further \$10m in Pollena Uroda over the next five years and to reinvest the company's net profits for the next three years.

Last year, Pollena Uroda, which specialises in cosmetics for women, reported a 7.4m zlotys net profit.

The purchase by Paterson Zochonis is the UK company's second stake in Poland. It bought the Pollena Wroclaw soap and detergent works in Wroclaw in 1993.

# Field Group buys drugs leaflet group

By Motoko Rich

Field Group, the carton maker, yesterday announced the acquisition of Press Pharma, the Belgium-based pharmaceutical leaflet manufacturer, for a maximum consideration of £5.2m.

Mr Keith Gilchrist, chief executive, said the acquisition would have considerable overlap with the group's existing pharmaceutical carton maker, Mareen. The group paid an initial £3.5m in cash and additional payments are subject to the acquisition's future performance.

The group also yesterday announced annual pre-tax profits up 72 per cent.

# LEX COMMENT Berisford over-reaction

The 15 per cent fall in Berisford's share price yesterday is an over-reaction. True, the company was a glamour stock and thus vulnerable to disappointments. But the scale of the profits short-fall within Berisford as a whole is not big enough to warrant so dramatic a response.

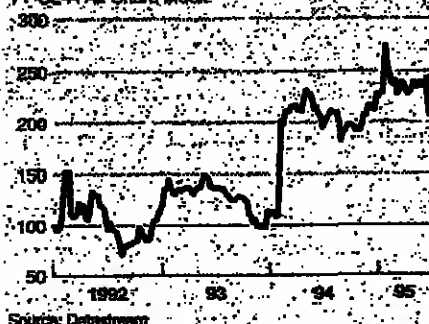
A price war in the door manufacturing industry is the immediate cause of the profit downgrades. It has led House of Berisford's broker, to reduce its full year forecast for Magnet from £18m to £13.5m. This is a large decrease, but it should be set in context. The net price paid for Magnet last year was a modest £23m, so even on the reduced level of profitability the purchase still looks an excellent deal. Moreover, the impact on the expanded group is limited. Berisford is expected to make £28m in the year as a whole, reflecting a strong contribution from the recently acquired Welbit.

The prognosis would be bleaker if the malaise affecting doors had spread into the kitchen market, which accounts for 60 per cent of Magnet's sales. So far this is not the case, and the management claims to have halted door losses.

Credibility has been dented by yesterday's

## Berisford

Share price relative to the FT-SE 100 Share Index



Source: Datastream

disappointments, but there will be time for this to be restored. No big share-financed acquisition is planned for the next 18 months, during which time Welbit should deliver on its promise and Magnet should come right. The shares, now on a market rating rather than a premium, look attractive - so long as there are no more nasty surprises.

# EuroDollar warns of worse first half German provision hits Hewitt

By Geoff Dyer

EuroDollar (Holdings), the car rental company which floated in July, recorded a 16 per cent rise in annual pre-tax profits.

However the shares, which fell 22p to 212p after the company said that profits in the first half of this year would be lower than last time.

In the year to March 31 profits rose from a pro forma £12.6m to £14.6m (£22m) on turnover 18 per cent higher at £25.9m (£27.8m).

Mr Ian Mosley, chief executive, said that there had been "severe pressure" on prices and margins in the second half

of 1994. As the group's contracts were negotiated annually, the effect of this would not be seen until this year's interim results.

Cost of sales rose 34 per cent to £25.7m (£19.2m). Mr Mosley said that this was a result of a higher proportion of personal business which led to increased vehicle costs, especially on insurance and vehicle repair.

EuroDollar added eight branches in the UK during the year taking the total to 110. It is aiming to expand its international network, which at present covers 37 countries, into Saudi Arabia and South Africa this year.

A £4.6m (\$7.2m) provision against the closure in February of its loss-making German operations pushed Hewitt Group, the industrial ceramics company, sharply into the red in 1994.

However, Hewitt, which in December was rescued and is now controlled by two former Medeva directors, also announced the purchase of Kelt Ceramic Materials for £3.5m.

The group reported pre-tax losses of £8.3m (£8,000 profits). While the preference dividends for 1994 have been paid, the ordinary dividends have been passed (3.2p). However, no preference dividends will be paid in 1995.

The decisions to close the German side and to make "an earnings-enhancing acquisition" stemmed from the appointment of Mr Ian Gorr-Smith and Mr David Lees, ex-Medeva, as non-executive deputy chairman and chief executive respectively.

# Keller Group in US deal

Keller Group, the ground engineering specialist, is to buy from Millgard Environmental of the US, four heavy crane units and other speci-

alised ancillary equipment, plus rights to carry out soil mixing processing using techniques patented by Millgard.

# Berisford shares hit by profit warning

By Peggy Hollinger

Berisford shares fell 15 per cent to 219p, their lowest level this year, as the Magnet kitchens group warned the malaise in the UK housing market would hold back profits in its joinery businesses.

It came on the same day as Bellwinch, the home counties housebuilder, issued a profits warning and follows gloomy comments in recent weeks from other companies in the industry.

Mr Alan Bowkett, chief executive, said Magnet's joinery

business had seen a sharp drop in volumes in April and May. "Until March we were running ahead of budget," he said. The slowdown had been sudden - almost overnight, he added - and as yet there were no indications whether it would last.

The difficulties had been exacerbated by a price war in the doors market, with one company leading the offensive. The pressures meant Magnet's performance would be flat in the second half.

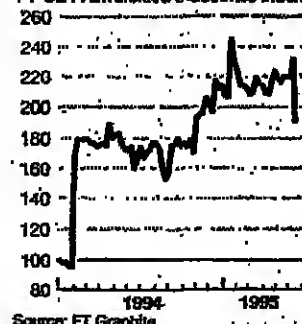
His comments led analysts to cut forecasts for the former property and commodities

shell by about £3m to £29m (\$45m), in spite of the announcement of a swing back into the black for the first half.

Mr Bowkett said he was delighted with the Welbit acquisition, which was performing ahead of expectations. He was puzzled by the degree of the share price fall, as most of the group's businesses had performed well. He put it down to high expectations after the company's debt-laden history. "When people think you can walk on water, if you get your feet wet, they think you are drowning," he said.

## Berisford International

Share price relative to FT-SE 100 Share Index



Source: FT Graphika

## RESULTS

		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year			
Acad	Yr to Mar 31	108.9	(78.5)	8.21	(3.05)	25	(15.2)	5	Aug 1	4.5	7.44	6.75
Bakyrchik Gold	Yr to Mar 31	-	-	3.33	(0.03)	16.8	(4.2)	-	-	-	-	-
Berisford	6 mths to Mar 31	158	(51.3)	11.1	(5.8)	6.4	(4.2)	1	July 18	0.75	-	0.5
Burnside Inns	6 mths to Apr 1	33.8	(29)	2.11	(1.82)	1.34	(1.15)	0.75	Sept 1	0.75	-	1.025
Chamberlain Phipps	Yr to Apr 1	139.4	(77.2)	12.4	(4.41)	21.4	(25.3)	5.3	Aug 10	-	8	-
Gold	6 mths to Apr 30	15.2	(13.3)	0.993	(2.53)	2.7	(8)	0.5	-	0.5	0.5	0.5
Granger (Jousses)	Yr to Apr 1	49.7	(48.7)	2.6	(2.6)	19.6	(19)	2.6	Aug 15	2.4	3.7	3.5
Esser Holdings	Yr to Mar 31	14.7	(13.5)	0.47	(0.18)	1.4	(0.7)	0.2	Aug 4	0.2	0.2	0.2
EuroDollar	Yr to Mar 31	85.9	(72.8)	14.6	(12.6)	19.97	(16.94)	6.2	Aug 7	0.75	7.8	7.8
Field Group	Yr to Apr 2	167.8	(154.6)	15.4	(8.9)	20.2	(15.8)	5.2	Sept 25	4.75	7.7	7.05
Hewitt	Yr to Dec 31	9.05	(8.14)	6.3	(0.08)	178.8	(8.3)	1.75	Aug 1	1.75	1.75	3.25
Kellogg	6 mths to Feb 28	43.2	(40.3)	0.88	(0.85)	4.23	(4.71)	0.2	-	0.2	-	0.2
Oriflame	Yr to Mar 31	81	(86.7)	15.8	(14)	25.2	(22.4)	9.4	Sept 27	6.7	14	13
Portsmouth & Sand	Yr to Apr 1	119.7	(112.1)	8.26	(7.31)	42.8	(4)	3.18	July 31	7.52	11.7	10.64
Reid	Yr to Apr 1	110	(130)	11.8	(8)	13.6	(7.4)	3.3	Aug 10	1.8	4.5	2.5
Salvesen	Yr to Mar 31	646	(558)	104.16	(7.4)	28.8	(19.2)	9	Aug 7	4.8	8.4	8.1
Tax Holdings	Yr to Mar 31	22.8	(20.8)	0.111	(0.273)	1	(2.4)	0.1	Aug 1	0.1	0.1	0.1
Unico	Yr to Mar 31	18.8	(13.4)	1.2	(0.5)	7.65	(3.53)	1.75	Aug 14	1.25	2.75	2
Urgate	Yr to Mar 31	1,886	(1,815)	58.34	(102.44)	19.8	(31.4)	11.9	Aug 8	11.3	18.2	17.3
Whitecroft	Yr to Mar 31	131.2	(125)	12.74	(4.34)	24.2	(8.8)	2.75	Aug 14	2	4.25	2
Investment Trusts	NAV (p)		Attributable earnings (£p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year			
Capital Gearing	Yr to Apr 5	548.7	(522.5)	0.018	(0.013)	0.79	(0.58)	0.5	-	0.45	0.5	0.45

Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. \$USM stock - US currency. ‡After exceptional charge. §After exceptional credit. §Comparatives pro forma. Comparatives for 11 mths to Mar 31 1994.

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# Friendly HOTELS PLC RESULTS

RESULTS IN BRIEF	1994	1993
TURNOVER	£38,787	£32,356
PROFIT BEFORE TAX	3,647	2,607
EARNINGS PER SHARE	8.7p	6.3p
ORDINARY DIVIDENDS	5.7p	5.7p

- Friendly's recovery continued during the year with a profit improvement of 39.9% on 1993. A final dividend of 3.5 pence is proposed so fully maintaining the total dividend on the capital increased by the rights issue.
- The hotels division has been the main source of our improved profitability. Acquisitions made during the year included the 154 room Friendly Hotel in Tassurup in Greater Copenhagen, the Comfort Friendly Inn in Hull and the Woodland Comfort Inn in Thorford.
- The Group now operates 30 hotels with over 3,100 rooms and 18 serviced office locations.
- Having achieved a useful improvement in profitability last year, we are confidently looking forward to maintaining this trend in 1995 and in the years to come, subject, as usual, to no unforeseen circumstances arising. It is also intended to consider a dividend increase if our aims are realised.

# 'It pays to stay Friendly'

For a copy of the latest Report and Accounts please apply to the Secretary, Friendly Hotels PLC, Premier House, 10 Greycoat Place, London SW1P 1SB.

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## COMMODITIES AND AGRICULTURE

## Population growth provides food for thought

Geoff Tansey looks at the issues facing an international conference starting today in Washington

Over 550 people from 50 countries - including vice presidents, finance and agriculture ministers, aid officials and technical experts - meet in Washington today at the start of a three-day conference on how to feed a further 2.5bn people by 2020 without destroying the environment.

The conference - "A 2020 Vision for Food, Agriculture, and the Environment" - is co-sponsored by the Washington-based International Food Policy Research Institute and the National Geographic Society. It is focal point of a three-year IFPRI programme, begun in 1994, to help set priorities and action plans to meet the world's food needs by 2020. The programme stems from a growing concern about current food security, an apparent decline in growth rates of major cereal crops and yield and productivity about the world's food supply.

Since January 1994, the IFPRI has been promoting research and trying to bring together the various opposing views about the food supply outlook - from the "technological doom" school, it wants to pick out promising solutions that will ensure all people are sustainably fed.

One concern "is a paralysing technical debate between agriculturalists and environmentalists over what environmentally sustainable farming would look like," says Robert Paarlberg, professor of political science at Wellesley College and author of a 2020 project briefing paper. The different sides need to pay "more attention to geography and to politics," he argues.

In Africa, and in much of non-irrigated and upland Asia, Paarlberg says, the agriculturalists are right in arguing that "the only way to boost production in pace with local food needs without having to cut more trees or plough up more land will be to move toward higher-yield farming". In some more advanced countries, however, he says environmentalists are right to want fewer inputs. Technical solutions alone, however, are unlikely to work without tackling the fundamental issue of unequal power relations, which, he says, will require "fundamental rural social and political reform".

"The extent and depth of poverty in the developing world is a disgrace," says IFPRI director-general Per Pinstrup-Andersen. He warns of a "sense of complacency" in the industrialised countries about the world's food future. He believes this stems from a misunderstanding between the world's food future. He believes this stems from a misunderstanding between the world's food future. He believes this stems from a misunderstanding between the world's food future.

genetic improvement of key crops and global action to advance scientific knowledge and its application. Much of this research and development - particularly in biotechnology - needs to be publicly financed and freely available to poor farmers argue several contributors.

"Most of the biotechnology research is carried out by the private sector and subject to intellectual property rights," says Gunter Dressius, director of the Agriculture, Forestry and Emergency Aid Sub-Department at Germany's aid body, GTZ.

He points out that "transnational companies, with budgets larger than those managed by governments in many developing countries, anxiously protect the results of their research. Thus, contrary to historical precedents, innovations are no longer public goods. Under these conditions, the developing world could be the loser in this selection process by market forces and competition, unless increasing investment in agriculture provides adequate facilities to the developing countries". IFPRI research shows, however, that "real external assistance to agriculture in low-income countries declined from US\$12bn in 1980 to \$10bn in 1990, while the share of agriculture in development assistance declined from 20 per cent in 1980 to 14 per cent in 1990".

Even if current [declining] levels of investment in agriculture are maintained to 2020, Sub-Saharan Africa will face an estimated deficit in cereals alone of almost 50m tonnes," says a paper by Patrick Webb, a policy analyst with the World Food Programme. He expects demand for food aid in 2020 to be at a level at least similar to today's.

Food aid fell from a record of 17m tons in 1983 to 14m in 1994, but threatened cuts in US overseas aid may lead to further downward trends. Only last week, the UN Food and Agriculture Organisation's director-general Jacques Diouf warned that "the world's food supply is projected to fall below the level of demand for food aid in 2020 to be at a level at least similar to today's".

Although invited to speak at the 2020 conference, Mr Diouf is not taking part. In November 1996, he proposes to convene a World Food Summit to get world leaders to renew their commitment to eradicate hunger and malnutrition and achieve food security for all.

Extending the approach developed in integrated pest management is one way to make a sustainable use of natural resources, argues conference participant Professor Gordon Conway, vice-chancellor of the University of Sussex. He will propose developing integrated natural resource and agricultural management (anum), which combines natural and artificial ways of management and involves farmers' local knowledge, culture and ecological understanding, in a kind of "double green" revolution.

"In Africa, in particular, we will have to greatly increase the use of synthetic fertiliser, but in combination with organic nutrients so ensuring the soil can sustain the highest yields," he says. The 2020 Vision project, funded by 10 member governments of the Organisation for Economic Co-operation and Development, the Ford and Rockefeller Foundations, two UN agencies, several aid organisations and Ciba-Geigy, runs to the end of 1996.

## Labrador project may bring upheaval in cobalt market

By Kenneth Gooding, Mining Correspondent

Inco's US\$500m purchase of a 30 per cent share of the Voisey Bay nickel-copper-cobalt project to north-eastern Labrador is good for the long term future of both the nickel market and the Canadian group, analysts suggest. But some warn it could cause upheaval in the cobalt market.

Mr Mike Sopko, Inco's chairman, when landing the deal with Diamond Fields Resources, which has 100 per cent of Voisey Bay, said he expected production to start by the end of the decade and with annual output of at least 130m lb of nickel, 90m lb of copper and 3m to 5m lb of cobalt.

Mr Nick Moore, analyst at Ord Minnett, a stockbroker associated with Jardine Fleming, says: "Using our estimates of world output in 1998, this would give Voisey about 8.5 per cent of the western world nickel market and up to 15 per cent of western world cobalt output".

The European free market price of cobalt, a hard metal essential in some superalloys used for jet engines, cutting tools, high-strength magnets and radial tyres, has risen from US\$11 a pound at the beginning of last year to \$28, partly because of a sharp drop in output from Gecamines, the state-owned Zairian group. In 1989 Gecamines produced about 10,000 tonnes of cobalt. Last year its output was down to 3,600, still enough to give it a 22 per cent market share.

However, agribusinesses in Kiev are confident that the market will be more open this year than before to foreign input suppliers. Mr Gerrit Huesting, country manager for Minnesota-based Cargill, blames the lack of good fertilisers and seeds for the declining yields, often at half of west European levels despite the good soil and favourable climate. "Ukraine has to be a grain exporter - it's a natural niche".

production in about five years. When deciding what Voisey Bay was worth, Inco assumed long-term prices of US\$3.50 to \$4.50 a pound for nickel, \$15 a pound for copper and \$1 a pound for cobalt. Mr Sopko said he expected Voisey Bay's cash production costs of nickel would be below \$1 a pound, once credit for by-products was taken into account. At present cobalt and copper prices costs would be zero. Analysts say the present nickel industry average is \$2 a pound although this is likely to come down with the spread of acid pressure leaching, where costs of 50 cents a pound are predicted. Inco has forecast its 1995 nickel output will be 430m lb and promised a 20 per cent expansion by 2,000. Mr Peter Salathiel, Inco's marketing vice-president, says demand for nickel, used mainly in stainless steel production, is growing at 5m lb a year, so "really you need a Voisey Bay every three years or so". Inco will not halt other projects such as the US\$500m expansion at PT Inco in Indonesia, where output is being boosted by 50 per cent to 150m lb in 1998.

Mr Larry Kaplan, another Ord analyst, says: "We believe the innovative deal is a good one for Inco. This way the company gets more control over its nickel market share, more options over its nickel production mix. It also has less in-jury implications for the longer term nickel price, since an industry free-for-all is now likely to be avoided. But undoubtedly there will have to be market share adjustments, with consequences for the nickel price during the period".

## Drought dashes Ukrainian hopes of harvest recovery

By Matthew Kaminski in Kiev

An early summer drought in central and eastern Ukraine threatens to depress the grain harvest again this year, according to the country's chief agricultural official.

Mr Petro Sabluk, first deputy prime minister, says Ukraine has downgraded its grain harvest estimate from a 25 per cent rise on last year's 35.5m tonnes crop. He now expects the harvest to be 40m tonnes.

The revision follows an encouraging forecast for winter wheat. The agricultural ministry last month predicted

that the winter wheat crop would total 18m tonnes this year, up from 13.8m tonnes, on the strength of good moisture conditions.

Independent analysts, however, believe both estimates are too optimistic. Mr Charles Courtney, an agricultural consultant funded by the European Union, says Ukraine will be lucky to maintain last year's output, the lowest in over a decade. Spring fertiliser and seed consumption estimates ahead of the August harvest are not good, another analyst says. The World Bank maintains

that the "cautious" pace of agricultural reform has a greater impact than weather on the decreasing output in Ukraine, the central European bread-basket, blessed with very fertile soil.

State orders, whereby farmers are ordered to sell produce at inflated prices, cover 25 to 35 per cent of grain, about 10m tonnes, down from 50 per cent last year.

The government has removed the orders for other products, but farmers often lack the financing to buy the necessary inputs. Mr Sabluk says state

contracts, the staple of a command economy, cannot be removed for another 18 months, if then, until distribution, storage and production are demopolised.

The government also arbitrarily sets indicative minimum prices for agricultural products to control exports. Grain exports are heavily restricted by licences and last year only privileged trading companies could export sunflower seeds. Administrative controls on this year's harvest have not been completely decided. Grain exports are not expected again this year.

The deputy prime minister promises that the government will make progress on privatising agricultural infrastructure, such as grain elevators, and freeing the land market this year.

He also says a commodities exchange, opened earlier this year, will help farmers secure inputs, but acknowledges that the exchange has developed slowly and handles only a small turnover.

The government does not purchase on the open market, leaving two allocation systems in place. "There's still no political

consensus about agricultural reform in Ukraine," Mr Courtney says. "It's been a slow start".

Mr Gerrit Huesting, country manager for Minnesota-based Cargill, blames the lack of good fertilisers and seeds for the declining yields, often at half of west European levels despite the good soil and favourable climate. "Ukraine has to be a grain exporter - it's a natural niche".

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

## ALUMINIUM, 99.7% PURITY (\$ per tonne)

	Close	High	Low	Open
Previous	1762-3	1778-90		
High/Low	1762-3	1778-90		
AM Official	1762-3	1778-90		
Korea close	1762-3	1778-90		
Open int.	165,754	26,540		
Total daily turnover	26,540			

## ALUMINIUM ALLOY (\$ per tonne)

	Close	High	Low	Open
Previous	1620-30	1640-50		
High/Low	1620-30	1640-50		
AM Official	1620-30	1640-50		
Korea close	1620-30	1640-50		
Open int.	2,598	388		
Total daily turnover	388			

## LEAD (\$ per tonne)

	Close	High	Low	Open
Previous	615-5.5	622-4		
High/Low	615-5.5	622-4		
AM Official	615-5.5	622-4		
Korea close	615-5.5	622-4		
Open int.	30,567	532-3		
Total daily turnover	532-3			

## NICKEL (\$ per tonne)

	Close	High	Low	Open
Previous	7770-80	7805-10		
High/Low	7770-80	7805-10		
AM Official	7770-80	7805-10		
Korea close	7770-80	7805-10		
Open int.	43,377	10,475		
Total daily turnover	10,475			

## TIN (\$ per tonne)

	Close	High	Low	Open
Previous	6730-40	6800-60		
High/Low	6730-40	6800-60		
AM Official	6730-40	6800-60		
Korea close	6730-40	6800-60		
Open int.	18,337	6,504		
Total daily turnover	6,504			

## ZINC, special high grade (\$ per tonne)

	Close	High	Low	Open
Previous	1008-9	1031-3		
High/Low	1008-9	1031-3		
AM Official	1008-9	1031-3		
Korea close	1008-9	1031-3		
Open int.	94,383	20,759		
Total daily turnover	20,759			

## COPPER, grade A (\$ per tonne)

	Close	High	Low	Open
Previous	2820-22	2871-3		
High/Low	2820-22	2871-3		
AM Official	2820-22	2871-3		
Korea close	2820-22	2871-3		
Open int.	238,525	5,000		
Total daily turnover	5,000			

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## PRECIOUS METALS

## GOLD COMEX (100 Troy oz; \$ per oz)

	Close	High	Low	Open
Previous	387.9	391.7	387.4	1,544
High/Low	387.9	391.7	387.4	1,544
AM Official	387.9	391.7	387.4	1,544
Korea close	387.9	391.7	387.4	1,544
Open int.	164,624	40,667		
Total daily turnover	40,667			

## PLATINUM NYMEX (50 Troy oz; \$ per oz)

	Close	High	Low	Open
Previous	441.0	442.0	438.5	1,154
High/Low	441.0	442.0	438.5	1,154
AM Official	441.0	442.0	438.5	1,154
Korea close	441.0	442.0	438.5	1,154
Open int.	21,587	5,630		
Total daily turnover	5,630			

## PALLADIUM NYMEX (100 Troy oz; \$ per oz)

	Close	High	Low	Open
Previous	161.50	162.50	160.50	181
High/Low	161.50	162.50	160.50	181
AM Official	161.50	162.50	160.50	181
Korea close	161.50	162.50	160.50	181
Open int.	167.05	3,330	984	
Total daily turnover	3,330			

## SILVER COMEX (100 Troy oz; \$ per oz)

	Close	High	Low	Open
Previous	538.2	542.5	537.0	24,241
High/Low	538.2	542.5	537.0	24,241
AM Official	538.2	542.5	537.0	24,241
Korea close	538.2	542.5	537.0	24,241
Open int.	551.4	558.0	550.0	16,640
Total daily turnover	16,640			

## ENERGY

## CRUDE OIL NYMEX (42,000 US gals; \$ per barrel)

	Close	High	Low	Open
Previous	18.72	18.87	18.57	14,028
High/Low	18.72	18.87	18.57	14,028
AM Official	18.72	18.87	18.57	14,028
Korea close	18.72	18.87	18.57	14,028
Open int.	18.72	18.87	18.57	14,028
Total daily turnover	14,028			

## CRUDE OIL ICE (5,000 bbl; \$ per barrel)

	Close	High	Low	Open
Previous	17.25	17.41	17.17	14,028
High/Low	17.25	17.41		



## INTERNATIONAL CAPITAL MARKETS

## Heavy futures selling drags Europe OTC derivatives surge

By Graham Bowley in London and Lisa Branstetter in New York

European government bonds retreated yesterday as the bearish trend that triggered last week's sharp sell-off continued.

Investors took fright last week after Mr Alan Greenspan, chairman of the US Federal Reserve, voiced doubts about the likelihood of a recession in the US.

They were further unnerved by rumours that Japan's Ministry of Finance had recommended that Japanese institutional investors stop buying US Treasuries.

This prompted a reassessment of the growth prospects of the US and European economies and caused a sharp correction in most government bond markets. Optimism about a slowdown in the US and Europe had fuelled strong gains in government bond markets in recent months.

Markets yesterday edged

sideways in nervous trading before heavy selling in the futures pits prompted by a subordinated opening to the US Treasury market dragged most European markets lower.

German government bonds fell back sharply, plagued by speculation about the likely direction of German interest rates after the Bundesbank council meeting tomorrow.

Traders think the Bundesbank might move to lower rates, in spite of comments yesterday by council members that such a move would be unlikely. The comments disappointed traders and dragged prices lower.

UK government bonds pared most of their early gains, falling in line with other European markets to end the day only slightly ahead.

Traders said investors remain nervous after last week's heavy losses. "The market is still very weak and dependent largely on

confidence in the US," said Mr Andrew Roberts of UBS. "There has been a change in sentiment and we now need more evidence of a slowdown and of better international markets."

Gilts rose in early trading on the back of weak producer price data, but fell back as bonds turned lower.

Swedish government bonds were one of the worst performers, after spending cuts proposed by the government as part of its attempt to meet EU convergence criteria failed to convince investors that it is able to stabilise public debt.

US Treasury prices were volatile through the morning, as traders awaited fresh economic data due today for signals about the strength of the economy.

By midday, the benchmark 30-year Treasury was 1/8% lower at 111 1/8, to yield 6.72%. At the short end of the maturity spectrum, the two-year note was up 1/8% at 100 1/8, to yield 5.95%.

On Sunday, Mr Alan Greenspan, chairman of the Fed, told reporters that the possibility of a mild recession had

increased, which led to a strong performance by Treasury bonds on overnight trading in Tokyo and London.

However, bonds slipped from their highs later in the morning as the dollar fell against the Japanese yen and the D-Mark due to fears that the US and Japan would not be able to resolve the trade dispute over Japan's car market. In early trading the dollar was changing hands at ¥83.90 and DM1.4005 against ¥84.62 and DM1.4068 late on Friday.

Bonds were expected to be volatile within a narrow range all day because traders had little in the way of data on which to base their decisions. They were looking to today's release of figures on May retail sales and consumer prices for signals about the strength of the US economy and the future of monetary policy.

Economists expect retail sales to have rebounded by about 0.5 per cent after the 0.4 per cent decline shown in April.

## Tennessee Valley set to launch global issue today

By Antonia Sharpe

Tennessee Valley Authority (TVA), the US government-owned power utility, is expected to launch its global bond offering this afternoon.

The 10-year issue, TVA's first bullet bond since 1989, is likely to raise about \$1.5bn at a

spread of 30 to 32 basis points over US Treasuries.

Mr Craven Crowell, TVA's chairman, said the offering is part of TVA's global expansion plans. He added that the company, which borrows about \$4bn annually, hoped to return to the international bond market in the future.

Syndicate managers expect the offering to go well, in spite

of the current volatility in the bond markets. "The market would like to see some other US agencies, it is tired of the 'P' names," said one manager, referring to the various US federal mortgage agencies which have launched deals in the past year.

TVA's deal, which is being arranged by Lehman, is one of several debt offerings due this week. Mr Tony O'Reilly's Independent Newspapers is expected to launch its £75m 10-year eurobond issue today, via Bankers Trust. The indicated price range is between 90 to 105 basis points over US government bonds. Since the bonds will be issued by a UK subsidiary of the Irish company, they will be eligible for UK corporate bond perks.

The third new entry this week will be NationsBank, the fourth-largest US banking com-

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner
US DOLLARS							
Banco Mercantil do Brasil	100	10.50	99.9383R	Jun 1997	1.00R	+460(5/4%-97)	Merrill Lynch
VEN							
DSL Bank	350n	2.88	100.00R	Jul 2002	0.30R	-	Nikko Europe
D-MARKS							
Kingdom of Denmark	500	8.125	99.788R	Jul 2000	0.25R	-	Goldman Sachs Frankfurt
DANISH KRONER							
Nordic Investment Bank	400	7.625	101.212R	Jul 2000	1.875	-	Kredietbank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. \*Unlisted. †Convertible. ‡With equity warrants. ‡ Floating-rate note. ‡ Semi-annual coupon. R: fixed re-offer price; less shown at re-offer level.

pany, whose floating-rate offering is expected on Thursday. The five-year deal, with a margin of between 20 and 25 basis points over Libor, is likely to raise at least \$500m.

Some established borrowers are also looking at the market. Asian Development Bank is close to launching a ¥35bn offering of 10-year eurobonds priced to yield about 10 basis

## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	7.500	07/05	90.4800	-0.080	8.95	8.84	8.87
Austria	7.000	05/05	90.6600	-1.490	7.18	6.97	7.24
Belgium	8.500	03/05	93.4900	-0.060	7.46	7.24	7.24
Canada	9.000	12/04	105.4900	-0.040	8.16	7.90	8.32
Denmark	7.000	12/04	90.9800	-0.780	8.41	8.02	8.62
France	ETAN	7.500	04/00	102.0100	-0.060	7.06	6.92
Germany	OAT	7.500	04/05	99.7100	-0.310	7.54	7.38
Greece		8.075	05/05	100.0000	-0.710	6.53	7.08
Ireland	6.250	01/04	85.5000	-0.680	8.56	8.21	8.94
Italy	8.500	01/04	84.8900	-0.320	12.231	11.73	12.23
Japan	4.800	06/09	100.0300	-0.093	2.09	2.08	2.88
Netherlands	8.000	06/04	112.3200	-0.380	2.61	2.82	3.40
Portugal	7.000	06/05	100.4900	-0.500	6.93	6.67	7.08
Spain	11.875	02/05	99.4900	-0.220	11.85	11.23	11.85
Sweden	8.000	02/05	102.7700	-0.170	10.84	10.34	11.14
UK Gilts	8.000	08/09	93.18	-0.32	7.85	7.34	7.85
US Treasury	8.500	12/05	106.18	-0.32	8.13	7.71	8.25
US Treasury	8.000	10/08	105.21	-0.32	8.17	7.77	8.36
US Treasury	6.500	05/05	100.28	-0.352	6.98	6.05	6.98
US Treasury	7.625	02/25	111.18	-0.28	8.72	8.48	8.72
US Treasury	8.000	04/04	88.4000	-0.340	7.36	7.02	8.10
Yields: Local market standard.							
London clearing, New York midday - see p. 12.5 for call payable by member.							
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Source: Market Movers							

Source: MMS International

## US INTEREST RATES

	One month	Three month	Six month	One year	Two year	Three year	Five year	Seven year	Ten year
Prime rate	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Bank rate	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Fed funds	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Repo rate	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

Source: MMS International

## BOND FUTURES AND OPTIONS

## France

## NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

## LONG TERM FRENCH BOND OPTIONS (MATIF)

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## Germany

## NOTIONAL GERMAN BOND FUTURES (LIEFF) DM500,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	93.70	93.49	-0.21	93.49	93.28	17,205	17,205
Dec	93.30	93.00	-0.30	93.30	92.90	2,987	3,964

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## UK Gilts Prices

## Short (3 years up to 10 years)

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## Japan

## NOTIONAL JAPANESE BOND FUTURES (LIEFF) ¥100m 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## Other Fixed Interest

## Asian Govt 10% 2000-2010

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## US Treasury

## NOTIONAL US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Jun	115.28	115.12	-0.16	115.28	115.04	183,374	57,486
Jul	114.80	114.74	-0.06	114.80	114.68	51,182	29,402
Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

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Dec	114.84	114.54	-0.30	114.84	114.54	196	2,223

Est. vol. total: 10,128 Puts 16,295. Previous day's open int., Cals N/A. Puts N/A.

## OTC derivatives surge despite adverse publicity

By Richard Lapper

The growth of the over-the-counter interest rate swap market in the second half of 1994 nearly matched the record levels of the first six months, according to figures published yesterday.

Turnover for the full year in OTC derivatives surged, with the notional value rising by 46 per cent to \$5,130bn, according to the International Swaps and Derivatives Association (ISDA), which represents participants in the OTC market.

The figures underline the buoyancy last year of the OTC derivatives market, despite adverse publicity following a number of corporate losses.

The continuing growth in swap activities confirms the widespread recognition of their benefits as a risk management

tool, even in challenging market conditions," said Ms Gay Evans, chairman of ISDA and managing director of Bankers Trust International in London.

The notional principal is an amount used to calculate cash flows and does not gauge risk. The market value or credit risk of these transactions typically amounts to 1 per cent to 2 per cent of the notional principal involved, according to ISDA.

The figures - based on data supplied by 88 international dealers and compiled by Arthur Andersen - show that transactions outstanding at the end of the year amounted to \$1,303bn, a rise of 38.4 per cent on end-1993.

The volume of interest rate swap transactions grew to \$649bn from \$4,105bn in 1993. Current swap activity increased by 28.5 per cent to

\$379.3bn. New transactions in interest rate options (caps, collars, floors and swaptions) rose by 29.2 per cent to \$151bn.

The number of swap transactions of all types outstanding at the end of the year amounted to 306,197, compared with 285,510 a year earlier.

The dollar continued to dominate the OTC market, with transactions rising by 31 per cent. However, the yen and D-Mark are gaining popularity. OTC transactions in yen accounted for 23 per cent of interest rate swap activity and grew by 59 per cent. The D-Mark accounted for 10 per cent of activity, with transactions up 45 per cent.

The ISDA figures do not cover transactions in embedded derivatives characteristics, such as mortgage-backed obligations and structured notes.

## CME to bolster currency side

By Laurie Morse in Chicago

The Chicago Mercantile Exchange plans to launch a futures contract on the Brazilian real and will implement a series of reforms in its existing futures and options contracts on eight foreign currencies in an attempt to bolster volume in its currency division.

The CME's 23-year-old foreign currency division has seen volume contracts stagnate, even as the private bank market for foreign exchange has ballooned.

Although the exchange has attempted to lure more of the interbank business on to its trading floor in recent years, many of its initiatives, including a "rolling spot" forward contract, have attracted little interest.

Bank traders say they have limited need for exchange-listed derivatives in currencies that have liquid forward mar-

kets and some have complained that the CME's markets are geared toward retail customers, and are cumbersome for larger traders to use.

In reforms announced yesterday, the CME said it would allow large orders in foreign currency futures to be matched electronically on the trading floor at a single price. A spokeswoman said orders would have to be "several hundred" contracts, and smaller orders would continue to be filled by open outcry trading.

The exchange will also experiment with allowing institutional customers to speak directly to pit brokers over telephone lines, to increase confidentiality and speed up order execution. Brokers are currently prohibited from having telephones in the pits, so orders must be relayed by floor clerks. Traders said the new system would allow more privacy and faster execution.

Other changes include enhancing floor-broker access to interbank market information and allowing some quotation vendors to roll back customer fees for real-time CME currency quotes until the end of this year.

The exchange plans to launch futures and options on the Brazilian real later this year, pending regulatory approval, the exchange said. The contract would be part of the CME's foray into emerging markets, which began with last April's introduction of Mexican peso futures.

The exchange said in addition to the real, it is considering listing contracts on the Spanish peseta and the Italian lira. The CME currently trades futures and options on the Australian dollar, British pound, Canadian dollar, D-Mark, French franc, Japanese yen, Mexican peso, and Swiss franc.



CURRENCIES AND MONEY

MARKETS REPORT

Political worries return to weigh on Italian lira

The lira yesterday fell on the foreign exchanges as traders took a sceptical view of the success of Mr Silvio Berlusconi in Sunday's referendum on media ownership, writes Philip Gaudin.

Mr Berlusconi's success was seen as increasing political uncertainty in Italy while reducing the prospect that necessary, but difficult, economic decisions would be taken.

Political developments also contributed to a weakening of the peseta, with a row over abortion threatening to jeopardise Catalan support for the ruling Socialist party.

The lira closed in London at L1.180 from L1.167 against the D-Mark. The peseta finished at Ptas66.75.

Elsewhere, the dollar traded in a fairly narrow range, albeit with a negative bias. Traders are reluctant to push the currency too much lower ahead of the G7 summit, and faced with the possibility of central bank intervention.

The dollar finished at DM1.4025, and ¥84.14, from DM1.3978 and ¥84.25 on Friday. Sterling had a quiet day, closing at DM2.2396 from DM2.2342. Against the dollar it finished at \$1.5965 from \$1.598.

The weakness of the lira reflects the market's disappointment that it may be deprived of the quiet life it was looking for, including meaningful fiscal and pensions reform, under Mr Lamberto Dini, the incumbent prime minister.

Mr Peter Farley, analyst at M&M in London, said: "The market view is that the longer you have one government in place the more likely something will be achieved."

Contrary to market hopes, Mr Berlusconi said he felt elections should be held by the autumn. There was also support for this view from left wing politicians.

Mr Dini, however, said there was no link between the referendum and the life of the government, saying that the earliest Italy could hold polls would be in October.

Mr Farley said that despite the weakening in the lira, there had been little sign of any aggressive selling. He said there was no substantiation for rumours of Bank of Italy support for the currency.

The other main theme in Europe was the exchange rate mechanism and single currency project, which produced a stream of comments from various quarters.

Mr Yves de Silguy, the EU commissioner for economic affairs, told reporters at the annual meeting of the BIS in Basel that any renegotiation of the convergence criteria for a single currency was "out of the question".

Mr Dini said in a newspaper interview that a single currency before the year 2000 was unlikely. He added, though, that Italy might try and rejoin the exchange rate mechanism by the year-end.

Sweden was also considering similar issues, with the government presenting a plan to bring the country into line

with EMU convergence criteria. Mr Goran Persson, finance minister, said he did not exclude the possibility that talks on joining the ERM might start this year. He said this would only be possible, though, when fundamental financial imbalances in the economy were corrected.

While the dollar is likely to stay in a fairly narrow range up to and through the G7 summit, sentiment remains fairly negative. One factor which could yet result in further yen strength is the weakness of the Japanese stock market, which closed below 15,000 for the first time since August 1992.

Mr Mark Geddes, treasury strategist at HSBC Markets in London, said: "In the recent past sharp falls in Japanese stocks have been a good lead indicator of fresh Yen strength, as weakness in domestic markets has reduced the prospect of short-term capital exports required to offset the positive

bias implied by the current account surplus."

There are also fears of US-Japan relations getting increasingly acrimonious in the run-up to the summit. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said comments from Mr Robert Rubin, US treasury secretary, telling Japan to reduce its economy, amounted to "the sword being sharpened".

He cited the strengthening of the Swiss franc as "the classic reflection of a flight to quality, because people don't know how well G7 governments will get on with each other."

In its daily operations the Bank of England cleared a \$700m money market shortage.

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WORLD INTEREST RATES

MONEY RATES

June 12	Over night	One month	Three months	Six months	One year	Long term	Debt rate	Repo rate
Belgium	4 1/2	4 1/2	4 1/2	4 1/2	5	7.40	4.00	-
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	7.40	4.00	-
France	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00	-	8.00
week ago	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00	-	8.00
Germany	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00	4.00	4.51
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00	4.00	4.51
Ireland	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2	-	8.25
week ago	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2	-	8.25
Italy	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50	10.40	-
week ago	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50	10.40	-
Netherlands	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00	4.00	-
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00	4.00	-
Switzerland	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00	4.00	-
week ago	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00	4.00	-
US	8	8	8	8	8 1/2	5 1/2	-	5.25
week ago	8	8	8	8	8 1/2	5 1/2	-	5.25
Japan	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00	-	1.00
week ago	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00	-	1.00

LIBOR FT LONDON

Interbank	6m	12m	3m	6m	9m	12m
week ago	5.85	5.85	5.85	5.85	5.85	5.85
US Dollar	5.85	5.85	5.85	5.85	5.85	5.85
week ago	5.85	5.85	5.85	5.85	5.85	5.85
ECU	5.85	5.85	5.85	5.85	5.85	5.85
week ago	5.85	5.85	5.85	5.85	5.85	5.85
SDR	5.85	5.85	5.85	5.85	5.85	5.85
week ago	5.85	5.85	5.85	5.85	5.85	5.85

EURO CURRENCY INTEREST RATES

June 12	Short term	7 days	One month	Three months	Six months	One year
Belgium	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	7.40
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	7.40
France	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00
week ago	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00
Germany	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
Ireland	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2
week ago	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2
Italy	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50
week ago	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50
Netherlands	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
Switzerland	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00
week ago	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00
US	8	8	8	8	8 1/2	5 1/2
week ago	8	8	8	8	8 1/2	5 1/2
Japan	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00
week ago	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00

OTHER CURRENCIES

June 12	Short term	7 days	One month	Three months	Six months	One year
Belgium	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	7.40
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	7.40
France	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00
week ago	7 1/2	7 1/2	7 1/2	7 1/2	8 1/2	5.00
Germany	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
Ireland	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2
week ago	8 1/2	8 1/2	8 1/2	8 1/2	9 1/2	7 1/2
Italy	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50
week ago	10 1/2	10 1/2	10 1/2	10 1/2	11 1/2	7.50
Netherlands	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
week ago	4 1/2	4 1/2	4 1/2	4 1/2	5 1/2	8.00
Switzerland	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00
week ago	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	8.00
US	8	8	8	8	8 1/2	5 1/2
week ago	8	8	8	8	8 1/2	5 1/2
Japan	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00
week ago	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.00

THREE MONTH EURO CURRENCY FUTURES (Liffe) DM1m points of 100%

June 12	Open	Settle	Change	High	Low	Est. vol	Open int.
Jun	95.82	95.82	-0.06	95.82	95.82	11,214	20,175
Sep	95.82	95.82	-0.06	95.82	95.82	11,214	20,175
Dec	95.82	95.82	-0.06	95.82	95.82	11,214	20,175

THREE MONTH EURO CURRENCY FUTURES (Liffe) DM1m points of 100%

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THREE MONTH EURO CURRENCY FUTURES (Liffe) DM1m points of 100%







**SPRING 2011**

[illegible]

- ☐ Indicates the most actively traded stock
- ▲ Indicates the stock with the highest Stock Exchange Automation of the stocks through the SEAD limit order book and lowest marked time
- ↑ Interim since increased, previous day
- ↓ Interim since decreased, previous day
- Interim since no change, previous day
- △ 2.1(b)(3) Overseas interest
- ◆ Financial Institutions report and USIA, not listed on Stock Exchange, latest dates of registration are indicated
- ◇ Price at time of suspension
- ◇ Indicated dividend yield after adjustment of record date
- ◇ Forecast dividend yield, prior interim statement
- ◇ Unofficial collective investment

<ul style="list-style-type: none"> <li>▲ Yield listed on prospectus</li> <li>▲ Figures listed on prospectus or other source</li> <li>▲ Assumed dividend yield after rights issue</li> <li>▲ Assumed dividend yield after spin-off</li> <li>▲ Rights after scrip issue</li> <li>▲ Earnings listed on prospectus</li> <li>▲ Dividend yield</li> </ul>	<ul style="list-style-type: none"> <li>▲ 700 million</li> <li>▲ 1 billion</li> <li>▲ V Fintech</li> <li>▲ 1984-95</li> <li>▲ 1996-97</li> <li>▲ 1998-99</li> <li>▲ 2000-01</li> <li>▲ 2002-03</li> <li>▲ 2004-05</li> <li>▲ 2006-07</li> <li>▲ 2008-09</li> <li>▲ 2010-11</li> <li>▲ 2012-13</li> <li>▲ 2014-15</li> <li>▲ 2016-17</li> <li>▲ 2018-19</li> <li>▲ 2020-21</li> <li>▲ 2022-23</li> <li>▲ 2024-25</li> <li>▲ 2026-27</li> <li>▲ 2028-29</li> <li>▲ 2030-31</li> <li>▲ 2032-33</li> <li>▲ 2034-35</li> <li>▲ 2036-37</li> <li>▲ 2038-39</li> <li>▲ 2040-41</li> <li>▲ 2042-43</li> <li>▲ 2044-45</li> <li>▲ 2046-47</li> <li>▲ 2048-49</li> <li>▲ 2050-51</li> <li>▲ 2052-53</li> <li>▲ 2054-55</li> <li>▲ 2056-57</li> <li>▲ 2058-59</li> <li>▲ 2060-61</li> <li>▲ 2062-63</li> <li>▲ 2064-65</li> <li>▲ 2066-67</li> <li>▲ 2068-69</li> <li>▲ 2070-71</li> <li>▲ 2072-73</li> <li>▲ 2074-75</li> <li>▲ 2076-77</li> <li>▲ 2078-79</li> <li>▲ 2080-81</li> <li>▲ 2082-83</li> <li>▲ 2084-85</li> <li>▲ 2086-87</li> <li>▲ 2088-89</li> <li>▲ 2090-91</li> <li>▲ 2092-93</li> <li>▲ 2094-95</li> <li>▲ 2096-97</li> <li>▲ 2098-99</li> <li>▲ 2100-01</li> <li>▲ 2102-03</li> <li>▲ 2104-05</li> <li>▲ 2106-07</li> <li>▲ 2108-09</li> <li>▲ 2110-11</li> <li>▲ 2112-13</li> <li>▲ 2114-15</li> <li>▲ 2116-17</li> <li>▲ 2118-19</li> <li>▲ 2120-21</li> <li>▲ 2122-23</li> <li>▲ 2124-25</li> <li>▲ 2126-27</li> <li>▲ 2128-29</li> <li>▲ 2130-31</li> <li>▲ 2132-33</li> <li>▲ 2134-35</li> <li>▲ 2136-37</li> <li>▲ 2138-39</li> <li>▲ 2140-41</li> <li>▲ 2142-43</li> <li>▲ 2144-45</li> <li>▲ 2146-47</li> <li>▲ 2148-49</li> <li>▲ 2150-51</li> <li>▲ 2152-53</li> <li>▲ 2154-55</li> <li>▲ 2156-57</li> <li>▲ 2158-59</li> <li>▲ 2160-61</li> <li>▲ 2162-63</li> <li>▲ 2164-65</li> <li>▲ 2166-67</li> <li>▲ 2168-69</li> <li>▲ 2170-71</li> <li>▲ 2172-73</li> <li>▲ 2174-75</li> <li>▲ 2176-77</li> <li>▲ 2178-79</li> <li>▲ 2180-81</li> <li>▲ 2182-83</li> <li>▲ 2184-85</li> <li>▲ 2186-87</li> <li>▲ 2188-89</li> <li>▲ 2190-91</li> <li>▲ 2192-93</li> <li>▲ 2194-95</li> <li>▲ 2196-97</li> <li>▲ 2198-99</li> <li>▲ 2200-01</li> <li>▲ 2202-03</li> <li>▲ 2204-05</li> <li>▲ 2206-07</li> <li>▲ 2208-09</li> <li>▲ 2210-11</li> <li>▲ 2212-13</li> <li>▲ 2214-15</li> <li>▲ 2216-17</li> <li>▲ 2218-19</li> <li>▲ 2220-21</li> <li>▲ 2222-23</li> <li>▲ 2224-25</li> <li>▲ 2226-27</li> <li>▲ 2228-29</li> <li>▲ 2230-31</li> <li>▲ 2232-33</li> <li>▲ 2234-35</li> <li>▲ 2236-37</li> <li>▲ 2238-39</li> <li>▲ 2240-41</li> <li>▲ 2242-43</li> <li>▲ 2244-45</li> <li>▲ 2246-47</li> <li>▲ 2248-49</li> <li>▲ 2250-51</li> <li>▲ 2252-53</li> <li>▲ 2254-55</li> <li>▲ 2256-57</li> <li>▲ 2258-59</li> <li>▲ 2260-61</li> <li>▲ 2262-63</li> <li>▲ 2264-65</li> <li>▲ 2266-67</li> <li>▲ 2268-69</li> <li>▲ 2270-71</li> <li>▲ 2272-73</li> <li>▲ 2274-75</li> <li>▲ 2276-77</li> <li>▲ 2278-79</li> <li>▲ 2280-81</li> <li>▲ 2282-83</li> <li>▲ 2284-85</li> <li>▲ 2286-87</li> <li>▲ 2288-89</li> <li>▲ 2290-91</li> <li>▲ 2292-93</li> <li>▲ 2294-95</li> <li>▲ 2296-97</li> <li>▲ 2298-99</li> <li>▲ 2300-01</li> <li>▲ 2302-03</li> <li>▲ 2304-05</li> <li>▲ 2306-07</li> <li>▲ 2308-09</li> <li>▲ 2310-11</li> <li>▲ 2312-13</li> <li>▲ 2314-15</li> <li>▲ 2316-17</li> <li>▲ 2318-19</li> <li>▲ 2320-21</li> <li>▲ 2322-23</li> <li>▲ 2324-25</li> <li>▲ 2326-27</li> <li>▲ 2328-29</li> <li>▲ 2330-31</li> <li>▲ 2332-33</li> <li>▲ 2334-35</li> <li>▲ 2336-37</li> <li>▲ 2338-39</li> <li>▲ 2340-41</li> <li>▲ 2342-43</li> <li>▲ 2344-45</li> <li>▲ 2346-47</li> <li>▲ 2348-49</li> <li>▲ 2350-51</li> <li>▲ 2352-53</li> <li>▲ 2354-55</li> <li>▲ 2356-57</li> <li>▲ 2358-59</li> <li>▲ 2360-61</li> <li>▲ 2362-63</li> <li>▲ 2364-65</li> <li>▲ 2366-67</li> <li>▲ 2368-69</li> <li>▲ 2370-71</li> <li>▲ 2372-73</li> <li>▲ 2374-75</li> <li>▲ 2376-77</li> <li>▲ 2378-79</li> <li>▲ 2380-81</li> <li>▲ 2382-83</li> <li>▲ 2384-85</li> <li>▲ 2386-87</li> <li>▲ 2388-89</li> <li>▲ 2390-91</li> <li>▲ 2392-93</li> <li>▲ 2394-95</li> <li>▲ 2396-97</li> <li>▲ 2398-99</li> <li>▲ 2400-01</li> <li>▲ 2402-03</li> <li>▲ 2404-05</li> <li>▲ 2406-07</li> <li>▲ 2408-09</li> <li>▲ 2410-11</li> <li>▲ 2412-13</li> <li>▲ 2414-15</li> <li>▲ 2416-17</li> <li>▲ 2418-19</li> <li>▲ 2420-21</li> <li>▲ 2422-23</li> <li>▲ 2424-25</li> <li>▲ 2426-27</li> <li>▲ 2428-29</li> <li>▲ 2430-31</li> <li>▲ 2432-33</li> <li>▲ 2434-35</li> <li>▲ 2436-37</li> <li>▲ 2438-39</li> <li>▲ 2440-41</li> <li>▲ 2442-43</li> <li>▲ 2444-45</li> <li>▲ 2446-47</li> <li>▲ 2448-49</li> <li>▲ 2450-51</li> <li>▲ 2452-53</li> <li>▲ 2454-55</li> <li>▲ 2456-57</li> <li>▲ 2458-59</li> <li>▲ 2460-61</li> <li>▲ 2462-63</li> <li>▲ 2464-65</li> <li>▲ 2466-67</li> <li>▲ 2468-69</li> <li>▲ 2470-71</li> <li>▲ 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ED &amp; F Man Investment Products - Contd.      Rosenwald, Roditi &amp; Co Ltd

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City	Lat	Long	Alt	Pop	Dist	Time	Code	Notes
Continued from previous page								
134, Saigon	06.54	106.20	64	30	235	+		15 12% US
134, Saigon	1.56	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
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134, Saigon	0.54	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
134, Saigon	0.54	107.10	554	32	211	+		84% US
13								

## AMEX COMPOSITE PRICES

AUGUST 1994				HIGH LOW CLOSE				STOCK				DOLLAR				HIGH LOW CLOSE				STOCK																	
DATE	OPEN	HIGH	LOW	CLOSE	DATE	OPEN	HIGH	LOW	CLOSE	DATE	OPEN	HIGH	LOW	CLOSE	DATE	OPEN	HIGH	LOW	CLOSE	DATE	OPEN	HIGH	LOW	CLOSE													
1	100	105	100	102	1	100	105	100	102	1	100	105	100	102	1	100	105	100	102	1	100	105	100	102													
2	102	107	102	104	2	104	109	104	106	2	106	111	106	108	2	108	113	108	110	2	110	115	110	112													
3	104	109	104	106	3	106	111	106	108	3	108	113	108	110	3	110	115	110	112	3	112	117	112	114													
4	106	111	106	108	4	108	113	108	110	4	110	115	110	112	4	112	117	112	114	4	114	119	114	116													
5	108	113	108	110	5	110	115	110	112	5	112	117	112	114	5	114	119	114	116	5	116	121	116	118													
6	110	115	110	112	6	112	117	112	114	6	114	119	114	116	6	116	121	116	118	6	118	123	118	120													
7	112	117	112	114	7	114	119	114	116	7	116	121	116	118	7	118	123	118	120	7	120	125	120	122													
8	114	119	114	116	8	116	121	116	118	8	118	123	118	120	8	120	125	120	122	8	122	127	122	124													
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A-Z	Stock	Price	High	Low	Open	Close	A-Z	Stock	Price	High	Low	Open	Close	A-Z	Stock	Price	High	Low	Open	Close
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## AMERICA

## Tech stocks celebrate IBM's win

## Wall Street

US shares were higher in early afternoon trading as investors took advantage of Friday's decline to get back into the market, writes Lisa Branstetter in New York.

At 1pm the Dow Jones Industrial Average was 3631.12, up 14.40 from 3616.72, while the Standard & Poor's 500 rose 4.18 to 532.12. The American Stock Exchange composite index climbed 1.07 to 499.68 and the Nasdaq composite gained 4.16 to 888.54, surpassing Thursday's record close. NYSE volume was 168m shares.

Bond market investors were more hesitant as they awaited important data on consumer prices and retail sales due out today.

Also helping the stock market was renewed optimism that the economy would slow gradually. The market had tumbled last week as investors became concerned that a string of weak economic data signaled a sharp slowdown and the markets interpreted remarks by Mr Alan Greenspan, chairman of the Federal Reserve, as an indication that the Fed was not prepared to ease monetary policy in the near term.

The Nasdaq composite jumped to a new high in the wake of strong performances by biotechnology and high-tech companies both of which are concentrated on that index.

On the high-technology side, the Pacific Stock Exchange technology index gained 1.1 per cent as the market reacted to news that Lotus had agreed to be purchased by

IBM for \$64 a share, up \$4 a share from the hostile bid for the software maker that IBM launched last week.

At noon, Lotus was the most actively traded issue on the Nasdaq although its shares remained unchanged at \$62. IBM shares rose 3 1/4 to \$50.00 on the news.

Nasdaq-traded technology shares were mixed with Broderbund Software 2 1/4 higher at \$38 1/4, Apple Computer up 1/4 at \$44 1/4 and Intel up 1/4 at \$33 1/4 while Microsoft slipped 1/4 to \$83 1/4.

Biotech shares climbed on the heels of an announcement from Cephalon and Chiron that they had positive test results on a drug they are jointly developing to treat patients with a degenerative muscle disease. Cephalon shares rocketed 70 per cent or \$7 1/4 to \$17 1/4 and Chiron jumped 9 per cent or \$3 1/4 to \$36.

The news sent investors into other biotech shares. Amgen gained 1 1/4 to \$73, Biogen gained 1 1/4 to \$41 1/4, Centocor rose 3/4 to \$13 1/4 and Mycogen was 3/4 higher at \$3.

**Canada**

Toronto was dragged higher, first by a positive tone in North American bond markets and, secondly, by the climb in equities on Wall Street. At 1pm local time, the TSE 300 Composite index had gained 10.15 to 4,473.70.

Consumer products and paper and forestry products took early strength into mid-session, with advances of 1.6 per cent and 0.5 per cent respectively.

**Brazil shares dip 1.2%**

Sao Paulo fell 1.2 per cent in quiet midday trading on speculative selling ahead of tomorrow's futures settlement. The Bovespa index was down 424 at 36,333.1 in low turnover of R\$110.8 (\$120.4m).

The index lost 3.9 per cent on Friday on rumours, later denied, that the central bank planned to devalue the real currency within the next few days. In spite of the denial, investors remained concerned over the possibility of a change in the system of foreign

exchange bands.

Some traders believed that yesterday's auction of National Treasury Notes, indexed to the variation of the real/dollar exchange rate, might signal the government's future exchange rate policy.

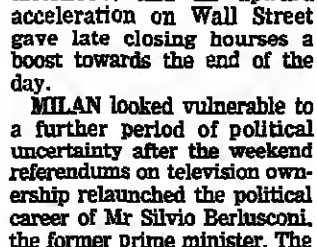
MEXICO CITY edged ahead in late morning trading in a technical rebound from last week's 3.7 per cent losses, although analysts remained bearish about the short term outlook. The IPC index rose 5.01 to 1,963.33.

## EUROPE

## Post-referendum political fears weaken Milan

Italy

Share price and index rebounded



Source: Datastream

James Capel, "The government had been moving towards producing its 1995 budget deficit reduction package and three-year economic programme, which would have been positive. Investors will be looking for rather more reassurance now."

Fiat fell 1 1/2 to L5,943, still under pressure from disappointing figures for the first three months of the year and a weaker car market in April and May. Some dealers commented that the stock was also being used for general selling of the market.

Geminia fell a further 1.58 to

L820, extending last week's slide on fears over its exposure to the ailing Foch group.

Against the trend, Credito Romagnolo picked up L244 to L11,249 after it was included in the Mib-30 index.

FRANKFURT recovered the bulk of Friday's losses, the Dax index ending the afternoon 20.63 higher at 2,127.79 after a session close of 2,119.56. Turnover expanded from DM5.1bn to DM6.3bn.

Deutsche Bank shares weakened on a report which claimed that the bank's earnings in its core lending and commission business had dropped 25 per cent in the first quarter. However, the bank's shares closed only 60 pips lower at DM70.40.

Industrials drew most encouragement from data showing a 2.9 per cent rise in industrial output in Germany in February. A selection of cyclical led the market's afternoon gains, with Deutsche Babcock up DM4.80 or 2.9 per cent at DM165.00, BMW DMI5 better at DM769.80 and Bayer DM6.70 higher at DM346.20.

PARIS was lifted by Wall Street, the CAC 40 index ending 10.73 ahead at 1,907.75 in turnover of FF2.63bn.

In oils, Elf Aquitaine corrected recent losses with a rise

of FF5.20 to FF338. Lagardere rose FF2.60 to FF114.60 after it said that the signing of a missile deal with British Aerospace was imminent. Among other winners, Credit National put on FF3.90 at FF445.90 after Bourse Schechter Prince, the broking house, upgraded its recommendation from "hold" to "buy" on the grounds that it was undervalued.

However, the same broker downgraded Axa, the insurer, concerned about the second-quarter results of its US-based Equitable unit and the completion of its bid for Australia's National Mutual. Axa shares shed FF3 to FF263.90.

MADRID was underpinned by bond market losses ahead of today's CPI data, economists' forecasts indicating a maintained annual inflation rate of 5.2 per cent. The general index fell 2.36 to 293.89, with the

## FT-SE Actuaries Share Indices

June 12	June 9	June 8	June 7	June 6	June 5
FT-SE 100	1348.18	1348.63	1352.01	1350.36	1352.29
FT-SE 250	1440.55	1441.57	1443.73	1445.96	1447.21

June 12	June 9	June 8	June 7	June 6	June 5
FT-SE 100	1352.31	1371.18	1374.76	1372.53	1374.78
FT-SE 250	1452.28	1452.89	1452.94	1452.45	1451.28

From 1000 (20/10/92); High/Low: 100 - 1353.82, 250 - 1448.30; London: 100 - 1348.22, 250 - 1447.21

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interest rate-sensitive banks and utilities among the worst hit: Iberdrola lost Ptas2 to Ptas80 and BCH slipped Ptas9 to Ptas7.70.

Bond market weakness also hit AMSTERDAM, the AEX index easing 0.49 to 431.98, the day was lifted by an 80-cent rise to FL12.30 at Fokker, the aircraft manufacturer announcing fresh deals from the Paris air show, and saying that a Saudi order was possible.

ZURICH rebounded from early lows in options and futures related business, although many investors were hesitant ahead of today's US economic data and tomorrow's Bundesbank meeting. The SMI index gained 7.0 to 2,902.3.

Holvis, the non-woven textiles and paper distribution company, gave up SF4 to SF500 as International Paper, of the US, failed to persuade

the Basle civil court to halt the British BBA Group's agreed, SF500 a share takeover bid.

Zurich Insurance registered rose SF26 to SF144.6. ABB Amro Hoare Govett increased its estimates for 1995 and 1996, but warned that the recent strength of the Swiss insurers left the sector looking fully valued and exposed to any adverse change in sentiment on interest rates.

Roche certificates picked up SF755 to SF77.145 as the rumours of a takeover of Britain's Zeneca receded.

Telecoms stocks enlivened HELSINKI and STOCKHOLM. Nokia A hit a new all-time closing high of FM216, up FM4, ahead of Friday's four-month figures, as the Hex index rose 11.4 to 1,894.4.

Eriasson B put on another SKR15 to a new high of SKR65 on expectations of new personal communications systems orders, but it was balanced by losers elsewhere in the Swedish market. Pharmacia dropped SKR7.50 to SKR154 after last week's speculation about foreign stakebuilding. The Affarsvarden General index ended 0.6 lower at 1,606.3.

Written and edited by William Cochrane and Michael Morgan

## ASIA PACIFIC

## Nikkei tumbles below 15,000 level to 34-month low

## Tokyo

Growing pessimism over the financial authorities' ability to tackle the problems of the banking system depressed investor confidence, and the Nikkei 225 average closed below the 15,000 level for the first time in 34 months, writes Emiko Terazono in Tokyo.

The index lost 230.72 or 1.5 per cent at 14,813.48 after moving between 14,741.84 and 15,030.15. Hedge selling by institutional investors on the futures market triggered arbitrage unwinding, while small lot selling by individual and companies also hit share prices.

Volume totalled 290m shares, against 625.9m on Friday, when activity surged due to futures and options settlements. Life and non-life insurers, which sold heavily against the large derivatives-linked activity on Friday, refrained from conspicuous selling.

The Tokyo index of all first section stocks fell 17.22 to 1,296.53, while the Nikkei 300 lost 3.99 at 234.67. Losers overwhelmed gainers by 914 to 134, with 112 issues unchanged. But in London the ISE/Nikkei 50 index put on 1.40 at 999.96.

Traders said the Nikkei 225's decline below its 30-year moving average, 14,887, had also depressed investor confidence. Although the index bounced back from the day's low, an analyst at Nikko Securities said there was a danger of the moving average becoming a technical resistance point.

Arbitrage-linked activity and profit-taking by overseas investors weighed down stock companies. The sector declined by 3.1 per cent, with Nippon Steel shedding Y6 to Y299 and Kawasaki Steel Y4 to Y289.

Showa Line, the shipping company, was the most active

issue of the day, rising Y11 to Y92 on short-covering. The stock was sold last week on reports that it was facing financial trouble, but the company released an official denial after trading hours on Friday.

Speculative favourites were mixed. Fudo Construction put on Y31 to Y774 on active buying and Maruyama slid Y41 to Y332 on individual selling.

The financial sector was weak. Industrial Bank of Japan fell Y60 to Y2,970 and Sakura Bank Y38 to Y992. Brokers also lost ground, with Nomura Securities down Y30 to Y1,490.

In Osaka, the OSE average shed 330.55 to 15,935.97 in volume of 7.6m shares. Nintendo, the video game maker, fell Y170 to Y4,680, while engineers, which had been bought on hopes of higher profits this year, also declined. Murata Mfg slipped Y60 to Y3,130 and Omron Y30 to Y1,570.

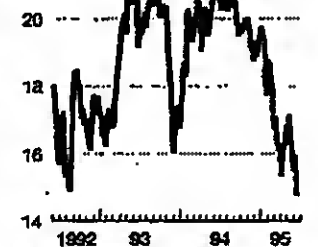
**Roundup**

Wall Street's poor performance on Friday, and Tokyo's further decline, overhung many regional markets. Sydney, Manila and Colombo were closed.

HONG KONG finished weak.

## Japan

Nikkei 225 Average (000)



Source: Datastream

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## S African industrials easier

Continued uncertainty about prospect left Johannesburg industrials down again, while gold shares ended firmer after the bullion price rose.

The overall index was 21.3

lower at 5,426. Industrials lost 45.1 at 6,797.5 and golds picked up 2.54 to 1,381.8.

De Beers and SAB each relinquished R1 to R92 and R103 respectively.

## First three months 1995

(In millions of pounds, except amounts per share)	First three months 1995	First three months 1994	%
Result before taxation:			
- Insurance operations	482	354	36.2
- Banking operations	255	268	-4.9
Net profit	520	470	10.6
Profit per ordinary share	1.92	1.81	6.1
Total assets	373,212	358,670	4.1
Shareholders' equity	19,366	21,758	-11.0

ING Group's net profit for the first three months of 1995 showed a handsome increase. The results of the insurance operations grew considerably, while the results of the banking operations were slightly under pressure.

In insurance, the life profit rose from NLG 194 million to NLG 245 million (+26.3%). The non-life profit increased by NLG 75 million to NLG 64 million. The improvement of the non-life result is partly due to the fact that the portfolio has not been affected by major natural disasters.

In banking, the interest result fell by NLG 91 million (-5.6%) to NLG 1,521 million. Commission income decreased by 2.6% to NLG 332 million. Although the result from financial transactions improved, it was still disappointing: NLG 42 million compared to NLG 234 million last year. Value adjustments to receivables from banking operations amounted to NLG 260 million compared to NLG 250 million (+4.0%). The result of the British bank Barings, acquired on 6 March 1995, was almost nil.

Shareholders' equity decreased from NLG 21.8 billion at the end of December 1994 to NLG 19.4 billion at the end of March 1995. This decrease was caused by writing off goodwill paid for Barings and by developments in the stock and foreign exchange markets. Shareholders' equity per share decreased from NLG 79.83 at the end of December 1994 to NLG 70.72 at the end of March 1995.

The Executive Board expects that, barring unforeseen circumstances, net profit for the whole of 1995 will at least equal the 1994 level.

## ING GROUP

The report for the first three months can be obtained at the following address: ING Group, P.O. Box 810, 1000 AV Amsterdam, The Netherlands tel: (+31) 20 541 54 71, fax: (+31) 20 541 54 51.

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## MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling ‡	% change in US \$ ‡
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1993	Start of 1993
Austria .....	-1.58	+1.65	-7.27	-3.40	+4.92	+7.23
Belgium .....	-2.59	-3.79	-3.08	+2.96	+11.33	+13.73
Denmark .....	-1.02	+0.22	-6.47	+4.05	+9.20	+11.61
Finland .....	+1.86	+3.25	-21.14	+6.01	+14.75	+17.23

	% change in local currency	% change in US \$	
1 Week	4 Weeks	1 Year	
Australia	-1.38	-3.08	-4.03
Hong Kong	-3.28	-0.94	-3.78
Japan	-4.24	-6.95	-27.80
Malaysia	-3.10	+3.58	+13.05
New Zealand	-2.38	-2.84	-1.73
Singapore	-3.52	-1.98	-0.44

EUROPE _____	-0.80	-0.23	+2.08	+4.95	+9.48	+11.90
Australia _____	-1.38	-0.98	-4.03	+2.87	-6.57	-4.51
Hong Kong _____	-3.28	-0.84	-3.78	+11.12	+8.77	+11.16
Japan _____	-4.10	-6.95	-27.80	-20.95	-9.84	-6.32
Malaysia _____	-3.24	+3.58	+13.05	+8.29	+10.86	+14.31
New Zealand _____	-2.38	-2.84	+1.73	+9.57	+11.85	+14.12
Singapore _____	-3.52	-1.88	+5.04	+1.16	+3.72	+6.00
Canada _____	+0.06	+4.98	+9.57	+6.75	+6.38	+8.73

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	US Dollar Index	FT-SE 100	FT-SE 250	Nikkei 225	DAX	FTSE 1000	FTSE 2000	FTSE 3000	FTSE 4000	FTSE 5000	FTSE 6000	FTSE 7000	FTSE 8000	FTSE 9000	FTSE 10000	FTSE 11000	FTSE 12000	FTSE 13000	FTSE 14000	FTSE 15000	FTSE 16000	FTSE 17000	FTSE 18000	FTSE 19000	FTSE 20000	FTSE 21000	FTSE 22000	FTSE 23000	FTSE 24000	FTSE 25000	FTSE 26000	FTSE 27000	FTSE 28000	FTSE 29000	FTSE 30000	FTSE 31000	FTSE 32000	FTSE 33000	FTSE 34000	FTSE 35000	FTSE 36000	FTSE 37000	FTSE 38000	FTSE 39000	FTSE 40000	FTSE 41000	FTSE 42000	FTSE 43000	FTSE 44000	FTSE 45000	FTSE 46000	FTSE 47000	FTSE 48000	FTSE 49000	FTSE 50000	FTSE 51000	FTSE 52000	FTSE 53000	FTSE 54000	FTSE 55000	FTSE 56000	FTSE 57000	FTSE 58000	FTSE 59000	FTSE 60000	FTSE 61000	FTSE 62000	FTSE 63000	FTSE 64000	FTSE 65000	FTSE 66000	FTSE 67000	FTSE 68000	FTSE 69000	FTSE 70000	FTSE 71000	FTSE 72000	FTSE 73000	FTSE 74000	FTSE 75000	FTSE 76000	FTSE 77000	FTSE 78000	FTSE 79000	FTSE 80000	FTSE 81000	FTSE 82000	FTSE 83000	FTSE 84000	FTSE 85000	FTSE 86000	FTSE 87000	FTSE 88000	FTSE 89000	FTSE 90000	FTSE 91000	FTSE 92000	FTSE 93000	FTSE 94000	FTSE 95000	FTSE 96000	FTSE 97000	FTSE 98000	FTSE 99000	FTSE 100000	FTSE 101000	FTSE 102000	FTSE 103000	FTSE 104000	FTSE 105000	FTSE 106000	FTSE 107000	FTSE 108000	FTSE 109000	FTSE 110000	FTSE 111000	FTSE 112000	FTSE 113000	FTSE 114000	FTSE 115000	FTSE 116000	FTSE 117000	FTSE 118000	FTSE 119000	FTSE 120000	FTSE 121000	FTSE 122000	FTSE 123000	FTSE 124000	FTSE 125000	FTSE 126000	FTSE 127000	FTSE 128000	FTSE 129000	FTSE 130000	FTSE 131000	FTSE 132000	FTSE 133000	FTSE 134000	FTSE 135000	FTSE 136000	FTSE 137000	FTSE 138000	FTSE 139000	FTSE 140000	FTSE 141000	FTSE 142000	FTSE 143000	FTSE 144000	FTSE 145000	FTSE 146000	FTSE 147000	FTSE 148000	FTSE 149000	FTSE 150000	FTSE 151000	FTSE 152000	FTSE 153000	FTSE 154000	FTSE 155000	FTSE 156000
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